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Federal Farm Loan Act

Washington

1923

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FEDERAL FARM LOAN ACT

HEARINGS

BEFORE THE

By

COMMITTEE ON BANKING AND CURRENCY OF THE HOUSE OF REPRESENTATIVES

SIXTY-SEVENTH CONGRESS

FOURTH SESSION

ON

H. R. 13125

(AS REVISED AND NUMBERED H. R. 14041)

91

TO AMEND SECTIONS 3, 4, 9, 12, 15, 21, 22, AND 25 OF THE ACT
OF CONGRESS APPROVED JULY 17, 1916, KNOWN
AS THE FEDERAL FARM LOAN ACT

DECEMBER 21, 1922; JANUARY 4, 5, 9, 10, 11, AND 15, 1923.

STATEMENTS OF

- Hon. HORACE M. TOWNER, Member of Congress from Iowa.
Hon. CHARLES E. LODWELL, Chairman of the Federal Farm Loan Board.
Hon. MELVIN O. McLAUGHLIN, Member of Congress from Nebraska.
Hon. HARRY E. HULL, Member of Congress from Iowa.
Mr. CHARLES A. LYMAN, Secretary National Board of Farm Organizations, Washington, D. C.
Mr. W. W. FLANNAGAN, Secretary Treasurer Federation of Farm Loan Associations, Washington, D. C.
Hon. HERBERT QUICK, Berkeley Springs, W. Va.
Hon. ROBERT A. COOPER, Member Federal Farm Loan Board, Washington, D. C.
Hon. NICHOLAS J. SINNOTT, Member of Congress from Oregon.
Mr. LESTER C. MANSON, Counsel for Federation of National Farm Loan Associations, Washington, D. C.
Mr. WILLIAM B. DOAK, Clifton Station, Va.
Hon. ASBURY F. LEVER, President Joint Stock Land Bank, Columbia, S. C.
Mr. MERTON L. COREY, General Attorney Federal Land Bank of Omaha, Omaha, Nebr.
Mr. GRAY SILVER, Representing the American Farm Bureau Federation.
Mr. GEORGE S. MORNIN, Secretary Treasurer Federal National Loan Association, Cedar Falls, Iowa.
Mr. BENJAMIN C. MARSH, Managing Director Farmers National Council, Washington, D. C.

WASHINGTON
GOVERNMENT PRINTING OFFICE
1923

B

COMMITTEE ON BANKING AND CURRENCY.

HOUSE OF REPRESENTATIVES.

SIXTY-SEVENTH CONGRESS, FOURTH SESSION.

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FRANK D. SCOTT, Michigan.

ADOLPHUS P. NELSON, Wisconsin.

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FEDERAL FARM LOAN ACT.

COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES.
Thursday, December 31, 1922.

The committee met at 2.30 o'clock p. m., Hon. Louis T. McFadden presiding. The CHAIRMAN. The committee will be in order. Gentlemen of the committee, this is a hearing on H. R. 13125, a bill introduced by Representative Strong on December 4, 1922.
(The bill referred to is as follows:)

[H. R. 13125, Sixty-seventh Congress, fourth session.]

A BILL To amend sections 3, 4, 6, 9, 12, and 15 of the act of Congress approved July 17, 1916, known as the Federal farm loan act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the eighth paragraph of section 3 of the act of Congress approved July 17, 1916, known as the Federal farm loan act be amended to read as follows:

"The salaries and expenses of the Federal Farm Loan Board and farm loan registrars and examiners authorized under this section shall, after June 30, 1923, be paid by the Federal and joint-stock land banks in proportion to their gross assets, as follows:

"The Farm Loan Board shall, prior to June 30, 1923, and each six months thereafter, estimate the expenses and salaries of the Federal Farm Loan Board, its officers and employees, farm-loan registrars, deputy registrars, the examiners and reviewing appraisers, and apportion the same amongst the Federal and joint-stock land banks in proportion to their gross assets at the time of such apportionment and make an assessment upon each of such banks pursuant to such apportionment, payable on the 1st of July or January next ensuing. The funds collected pursuant to such assessment shall be deposited with the Treasurer of the United States to the credit of the Federal Loan Board and be by it disbursed upon proper voucher in payment for such salaries and expenses.

"If any deficiency shall occur in such fund during the half-year period for which it was estimated, the Farm Loan Board shall have authority to make immediate assessment covering such deficiency against the Federal and joint-stock land banks upon the same basis as the original assessment. If, at the end of the six months' period, there shall remain a surplus in such fund, it shall be deducted from the estimated expenses of the next ensuing six months' period when assessment is made for such period. Land-bank appraisers shall receive such compensation as the Federal Farm Loan Board shall fix and shall be paid by the Federal land banks and the joint-stock land banks which they serve in such proportion and in such manner as the Federal Farm Loan Board shall order."

SEC. 2. That the seventh subdivision of section 4 of said act be amended to read as follows:

"Seventh. To exercise, by its board of directors or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business herein described.

"After the subscriptions to stock in any Federal land bank by national farm-loan associations, hereinafter authorized, shall have reached the sum of \$100,000, the officers and directors of said land bank shall be chosen as herein provided

and shall, upon becoming duly qualified, take over the management of said land bank from the temporary officers selected under this section.

"The board of directors of every Federal land bank shall be selected as hereinafter specified and shall consist of seven members. Three of said directors shall be known as local directors and shall be chosen by and be representative of national farm-loan associations, and borrowers through agencies; three shall be known as district directors and shall be appointed by the Federal Farm Loan Board and represent the public interest. The term of office of local and district directors shall be three years. The local directors and district directors shall within ten days from receiving notice of their election and appointment, and on a date to be designated by the farm loan commissioner meet at the Federal land banks of their respective districts for the purpose of organization, and shall at such meeting, and annually thereafter at their first meeting in January elect a seventh director who shall be experienced in practical farming and actually engaged at the time of his election in farming operations within his district, whose term of office shall expire on the 15th of the January next ensuing after his election, and who shall, during his term of office, be chairman of the board of directors. In the event the local directors and district directors shall fail by reason of a tie vote to make a selection of such seventh director, the farm loan commissioner shall cast the deciding vote.

"At least two months before each election the Federal Farm Loan Board shall divide each land bank district into three divisions, as nearly equal as possible according to number of borrowers and amount of loans outstanding in national farm-loan associations or borrowers through agencies, and the farm loan commissioner shall thereupon notify each association and agency in writing that an election is to be held for one local director from each of said divisions and requesting each association and agency to nominate one candidate for each division. Within ten days of receipt of such notice each national farm-loan association and borrower through agencies shall forward nominations for director to said farm loan commissioner. The farm loan commissioner shall then prepare a list of candidates for local directors, consisting of the ten persons securing the highest number of votes from national farm-loan associations and borrowers through agencies.

"At least one month before said election the farm loan commissioner shall mail to each national farm-loan association and to each borrower through agencies the list of candidates. The directors of each national farm-loan association shall cast the vote of said association for one of the candidates on said list and shall forward said vote to the said farm loan commissioner within ten days after said list of candidates is received. In voting under this section each association shall be entitled to cast a number of votes equal to the total voting strength of the stockholders in association meetings, and each borrower through agencies shall be entitled to cast one vote for each share of stock held by him in the Federal land bank not exceeding twenty shares. The candidate receiving the highest number of votes shall be declared elected as local director of the Federal land bank district from his division. In case of a tie, the farm loan commissioner shall determine the choice.

"The Federal Farm Loan Board shall designate one of the district directors to serve for three years, one to serve for two years, and one for one year. After their first appointment each district director shall be appointed for a term of three years. At the first regular meeting of the board of directors of each Federal land bank the local directors shall designate one of their members for a term of three years, one for two years, and one for one year. Thereafter each local director shall be chosen as hereinbefore provided and shall hold office for a term of three years. Any vacancies that may occur in the board of directors shall be filled for the unexpired term in the manner provided herein for the original selection of such directors.

"Directors of Federal land banks shall have been, for at least two years, residents of the district for which they are appointed or elected. No district director of a Federal land bank shall, during his continuance in office, act as an officer, director, or employee of any other institution, association, or partnership engaged in banking or in the business of making or selling land-mortgage loans.

"Directors of the Federal land banks shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their boards, to be paid by the respective Federal land banks. Any compensation that may be provided by boards of directors of the

Federal land banks for directors, officers, or employees shall be subject to the approval of the Federal Farm Loan Board."

Sec. 3. That section 6 of said act be amended by inserting immediately after original section 6 the following to be known as section 6b of the act:

"Sec. 6b. That the Federal Farm Loan Board may, in its discretion and as hereinafter provided, issue a charter for a corporation to be known as the Central Federal Land Bank. Such corporation may be organized upon application of seven or more of the twelve Federal land banks organized under the provisions of this act, which are hereby authorized to subscribe and pay for the capital stock of such corporation:

"Any Federal land bank may by resolution of its board of directors authorize its president, on behalf of such bank, to sign an application for a charter for the Central Federal Land Bank, and subscribe for its proportionate share of the stock thereof.

"Such resolution shall be by the secretary of the bank duly certified to the Federal Farm Loan Board, and upon receipt of such resolutions from three or more of the Federal land banks the Federal Farm Loan Board shall submit the question of organizing such a corporation to the boards of directors of the remaining banks, and if as many as seven favor the organization it shall be proceeded with as follows, namely:

"The Federal Farm Loan Board shall designate from among the presidents of the Federal land banks applying for such organization a committee of three, to be known as the organization committee.

"Such committee shall forthwith meet at the office of the Federal Farm Loan Board in the city of Washington and properly sign and file with such board the articles of association for the Central Federal Land Bank.

"Such articles of association shall set forth—

"The authority of the signers.

"The name of the corporation.

"The names of the Federal land banks uniting to form the corporation and the amount of stock subscribed by each.

"The amount of its initial capital stock which shall not be less than \$500 nor more than \$1,000,000, divided into shares of \$100 each: *Provided*, That such corporation in its articles of association make provision for the increase of its capital stock from time to time in proportion to the increase of the capital stock of the several subscribing banks held and owned by national farm-loan associations and borrowers.

"The purposes for which it is formed, which shall be—

"(a) To act as financial agent for the Federal land banks and the Government of the United States.

"(b) To issue, buy, and sell farm-loan bonds and buy and sell obligations of the Government of the United States.

"(c) And when so designated by the Secretary of the Treasury to serve as depository of public money.

"(d) To serve as a depository for the Federal land banks and joint-stock land banks, which are hereby authorized to deposit their current funds with it, subject to check.

"Upon the receipt of such articles of association the Federal Farm Loan Board may, in its discretion, immediately issue a charter to such corporation.

"The presidents of the several subscribing land banks shall be ex officio directors of such corporation, and there shall be no other directors, except that such directors may, in their discretion, by proper resolution, provide for an additional director, who shall be elected by them and serve for a period of three years. Directors of such corporation shall receive no compensation as such directors, except their actual and necessary expenses in attending directors' meetings and when otherwise employed in the service of the corporation.

"The place of business of such corporation shall be in the city of Washington, but it may establish such branch offices as may be by its board of directors deemed necessary for the proper transaction of its business.

"Such corporation shall have power—

"First. To adopt and use a corporate seal.

"Second. To have succession until it is dissolved by act of Congress or under the provisions of this act.

"Third. To make contracts.

"Fourth. To sue and be sued, complain, interplead, and defend in any court of law or equity as fully as natural persons.

"Fifth. To select, by action of its board of directors, such officers and employees as may be deemed necessary for the proper carrying on of its business, fix the tenure of office and define the duties of such officers and employees, prescribe their compensation, require bonds of them, and fix penalty thereof, and to dismiss such officers and employees or any of them at pleasure, and to appoint others to fill their places.

"Sixth. To prescribe, by its board of directors, subject to the supervision and regulation of the Federal Farm Loan Board, by-laws not inconsistent with law regulating the manner in which its stock shall be transferred, its officers elected or appointed, its property transferred, its general business conducted, and the privileges granted to it by law exercised and enjoyed.

"Seventh. To exercise, by its board of directors or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business herein described.

"Eighth. To issue, buy, and sell Federal farm-loan bonds and buy and sell obligations of the United States Government. To act as financial agent for Federal land banks subscribing to its stock, and the United States Government, and perform all proper acts incident to such agencies.

"Ninth. To act as depository for Federal land banks and the Government of the United States: *Provided*, That all restrictions imposed by this act upon the deposit of public money with Federal land banks shall apply to deposits with the Central Federal Land Bank. To deposit its funds with member banks of the Federal reserve system.

"Tenth. To receive deposits of current funds for the purchase of farm-loan bonds or obligations of the United States Government, give receipt therefor, and pay interest on such deposits.

"Eleventh. To borrow money, give security therefor, and pay interest thereon. Shareholders of such corporation shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such corporation to the extent of the amount of stock owned by them at the par value thereof, in addition to the amount paid in and represented by their shares.

"The power hereby conferred upon the Central Federal Land Bank to issue Federal farm-loan bonds shall be exercised as follows:

"When any Federal land bank shall desire to make an issue of farm-loan bonds and shall make application to the Farm Loan Board for the approval of such issue, as in this act provided, it shall transmit copy of such application to the Central Federal Land Bank, with a request to said bank to make such issue on its behalf when the same has been approved by the Federal Farm Loan Board.

"When an issue of farm-loan bonds by any Federal land bank has been approved by the Federal Farm Loan Board it shall certify such approval to the Central Federal Land Bank, which shall thereupon be fully authorized to issue such bonds.

"Each Federal land bank subscribing to the stock of the Central Federal Land Bank shall, by appropriate resolution of its board of directors spread upon its minutes, agree to become liable for and to pay, upon demand, any matured farm-loan bond issued by the Central Federal Land Bank or any past due interest on any such bond.

"Federal farm-loan bonds issued by the Central Federal Land Bank shall be in all respects governed by the provisions of this act as to Federal farm-loan bonds, and such bonds shall be deemed and held to be instrumentalities of the Government of the United States, and, as such, they and the income derived thereon shall be exempt from Federal, State, municipal, and local taxation.

"Each Federal land bank subscribing to the capital stock of the Central Federal Land Bank shall be primarily liable for the payment of the principal and interest of all farm-loan bonds issued by the Central Federal Land Bank on its behalf, and shall deposit with the Central Federal Land Bank, at least one day before maturity, funds sufficient to pay all accruing interest on maturing bonds."

SEC. 4. That section 9 of said act be amended by adding thereto the following:

"Any solvent national farm-loan association may go into voluntary liquidation as prescribed herein upon the vote of two-thirds of the voting stock of such association. Any association desiring to avail itself of this provision

shall submit the question of going into liquidation to a regular meeting of the stockholders or at a special meeting called for that purpose, of which at least ten days' notice in writing shall be given to each shareholder. If, at such meeting, two-thirds of the voting stock of such association shall vote in favor of voluntary liquidation, the secretary-treasurer shall spread the result of such vote upon his record and certify the same to the Federal land bank of the proper district. Upon receipt of such certificate the Federal land bank shall cause to be made such investigation as it deems proper into the affairs of such association, and if it be found that such association has no debts, and that there are no delinquent payments due from members of such association to the Federal land bank, it shall forward all the papers in the case to the Federal Farm Loan Board with its recommendations. The Federal Farm Loan Board shall make such investigation as it deems proper and, if satisfied that the liquidation should be allowed, shall so direct. Upon final liquidation of any national farm-loan association, under the provisions of this section, the stock in the Federal land bank held by such association shall be canceled and the Federal land bank shall thereupon issue to the borrowers through such association an amount of stock in the Federal land bank equal to the amount of stock held by such borrowers in the liquidated association, such stock to be held by the bank as collateral to the loans of such borrowers and to be paid off and retired at par in the same manner as stock held by borrowers in farm-loan associations, and the Federal land bank shall pay to the borrowers hold such stock the same dividends as are paid to national farm loan associations by such bank."

SEC. 8. That the fourth paragraph of section 12 of said act be amended to read as follows:

"Fourth. Such loans may be made for the following purposes, and for no other:

"(a) To provide for the purchase of land for agricultural uses.

"(b) To provide for the purchase of equipment, fertilizers, and live stock necessary for the proper and reasonable operation of the mortgaged farm, the term 'equipment' to be defined by the Federal Farm Loan Board.

"(c) To provide buildings and for the improvement of farm lands, the term 'improvement' to be defined by the Federal Farm Loan Board.

"(d) To liquidate indebtedness of the owner of the land mortgaged."

And that the seventh paragraph of said section be amended by striking out the figure "\$10,000" and inserting in lieu thereof "\$25,000," so that the paragraph as amended shall read:

"Seventh. The amount of loans to any one borrower shall in no case exceed a maximum of \$25,000, nor shall any loan be for a less sum than \$100: *Provided*, That if any Federal land bank shall have submitted an application for loan in excess of \$25,000 which it desires to make it may submit such application to the Federal Farm Loan Board, and said board, if satisfied with the security tendered and that the loan is for proper purposes and in the interest of agricultural development, may authorize the making of such loan if within the maximum allowed to joint-stock land banks in the same land-bank district."

SEC. 6. That section 15 of said act be amended to read as follows:

"Sec. 15. That whenever it shall appear to the Federal Farm Loan Board to be necessary to the proper service of borrowing farmers in any locality said board may, in its discretion, authorize Federal land banks to make loans on farm lands direct to borrowers and to designate local agents to receive such applications and represent the bank in the closing of such loans. Such local agents shall serve at the pleasure of the bank and shall give surety bond for the faithful performance of their duties in such sum as the Federal Farm Loan Board shall prescribe and may collect from each borrower at the time the loan is closed such compensation as the Federal Farm Loan Board may approve, not exceeding 1 per cent of the amount of the loan made, with a minimum of \$5 per loan.

"Such loans shall be subject to the same conditions and restrictions, as far as are in their nature applicable, as if the same were made through a national farm loan association, and each borrower shall contribute 5 per cent of the amount of his loan to the capital stock of the Federal land bank and shall become the owner of as much capital stock of the land bank as such contribution shall warrant.

"Shareholders in a Federal land bank under this provision shall be held individually responsible, equally and ratably, and not one for another, for all

contracts, debts, and engagements of such bank to the extent of the amount of stock owned by them at the par value thereof, in addition to the amount paid in and represented by their shares.

"Borrowers under this provision shall acquire their stock at par and shall be paid such dividends as are paid on the stock held by farm loan associations, and the stock of any such borrower may be retired at par at any time by order of the board of directors of the bank, with the approval of the Farm Loan Board, and shall be retired and paid off at par upon the payment of the loan of such borrower. Such stock shall be retained by the Federal land bank issuing the same as collateral security for the loan of such borrower.

"This amendment shall not operate to prejudice the rights of any agent heretofore designated under the provision of the original section 15.

"Any borrower who acquires stock in the Federal land bank under the provisions of this section shall have one vote in all meetings of shareholders of the bank for each share of stock owned by such borrower not exceeding twenty votes and a like number of votes in the election of directors of such banks, such votes to be cast and canvassed in such manner as the Federal Farm Loan Board shall provide.

"Any ten borrowers under this section whose loans aggregate not less than \$20,000 may at any time organize themselves into a national farm loan association by filing with the proper Federal land bank their articles of association in such form as the Federal Farm Loan Board shall prescribe."

Mr. STRONG. Mr. Chairman, Congressman Townner, of Iowa, would like to be heard first because of another engagement that he has, and Judge Lobdell has consented to step aside and let the Congressman go ahead for a few minutes.

The CHAIRMAN. Mr. Townner, we will be very glad to hear from you now.

STATEMENT OF HON. HORACE M. TOWNNER, A MEMBER IN CONGRESS FROM THE STATE OF IOWA.

Mr. TOWNER. Mr. Chairman, I appreciate very much the courtesy of being allowed to make a short statement. I am strongly in favor of this bill, H. R. 13125, and all of its provisions. However, I will not undertake to discuss any particular part of it, except the provision in the bill which increases the limit of farm loans from \$10,000 to \$25,000. I am very heartily in favor of that provision, because in Iowa we find a very great need for this increase. In our State the average farm is what we call a quarter section, or about a 160-acre farm. The average value of lands in Iowa is over \$200 an acre; I think the last time they took the valuation of the farms it was \$226 an acre.

Of course, we all understand the conditions generally of the farmers, especially in the Middle West. They are in debt. There are very few farmers that are actually farming their land who are not very extensively in debt. I will not discuss the reasons of that; they are many, and it would not serve any useful purpose to go into that part of the matter. The fact exists.

The limitation of \$10,000 on farm loans is altogether too small for the Iowa farmer; in fact it is too small for almost any of the farmers of the Mississippi Valley. It is not even limited to that, Mr. Chairman.

The census figures show that the average value per farm in Iowa is \$88,941. A loan of \$10,000 is little more than one-fourth of that valuation. The valuation of the farms in South Dakota is \$37,000, which shows also a like condition. In Nebraska it is \$33,000 and in Nevada \$31,000. The reason for that is that there is such a dissimilarity in the average size of the farms. The Iowa farm, as I have stated, is about 160 acres on the average. In South Dakota it is over 400 acres, and in Nebraska it is almost 400 acres of land; in Nevada it is over 700 acres. But the valuation of the farms, you can see by these illustrations is of such a nature that a \$10,000 loan on any of these farms is not really what is required in very many instances.

Of course, we all understand that it is a difficult thing to even seem to encourage farm indebtedness. But we are not presented with that question. The fact is that the indebtedness exists, and the fact is that we ought to, if we possibly can, bring that indebtedness within two very advantageous arrangements, if it possibly can be done.

In the first place, we ought to make the rate of interest just as low as it is possible. That can only be done by an indebtedness such as is contemplated by this bill, and such as is granted by the Federal farm-loan system—an indebtedness that carries now a rate of interest of only 5½ per cent; and which will soon be only 5 per cent.

Especially advantageous, Mr. Chairman, is the amortization feature. It is not sufficient that we should make the farm loan an easier burden and a lighter burden; it is also important that we should increase, if we possibly can, a method by which these loans and this indebtedness can be lessened and be wiped out. The amortization of these Federal farm loans allows that to be done.

I have before me a very striking statement regarding the method by which not only is the amount required greatly lessened, to leave out of consideration any temporary indebtedness which carries a rate of 8 per cent, but even as between the ordinary farm loan and the amortized farm loan, as offered by the Federal farm loan system, there is a very great saving to the farmer.

This illustration makes a comparison between a Federal farm loan of \$10,000 for 34½ years period with and without the amortization feature. The interest at 5½ per cent, not compounded, is \$550 a year on the ordinary farm loan, and the principal and interest on such a loan would amount to \$18,975 for that period, and the principal would still be unpaid—the \$10,000—which would make the total amount \$28,975.

Mr. STEVENSON. For how many years?

Mr. TOWNER. Thirty-four and one-half years, in order to make a comparison with the Federal farm loan.

Under the Federal plan you will pay \$325 each six months, which amounts to \$22,424.70. So that the total amount paid under the Federal farm-loan plan is \$22,424.70; and the entire loan, both principal and interest, is paid making a saving in favor of the Federal farm-loan plan between \$28,975 and the \$22,424.70 of the Federal farm-loan plan, which makes a saving of a total amount to be paid of \$6,550.30.

This comparison shows the great advantage of the Federal system.

Of still greater value is the advantage in the encouragement that is always before the borrower that he is finally wiping out his indebtedness, so that he can, at the end of this period, have the farm for himself and for his children; that his farm and home will be free of this terrible encumbrance. Of course, that applies equally and proportionately to any farm loan of any size, but as to the comparison between the two methods the great advantage of the Federal farm-loan system must be apparent to anyone.

Mr. STRONG. I would like to suggest another great advantage, and that is when the loan is once made the farmer never has to fear that when the loan becomes due there may be a scarcity of money which will require him either to pay the loan or to pay a much higher rate of interest.

Mr. TOWNER. That is very true. Of course, this does not really represent the cost by any means, because in a great many instances the ordinary loan has to be renewed at least each 5 or 10 years. The Federal loan has never to be renewed. Besides this there is an arrangement for payments of more than the principal and interest, which would reduce still further the showing in favor of the Federal farm loan system.

Mr. Chairman, may I offer this for the record?

The CHAIRMAN. It will be placed in the record at this point.
(The newspaper clipping referred to is as follows:)

"The saving between the Federal loan running 34½ years and the short-time loan is rather surprising. Take a \$10,000 loan for example:

The interest at 5½ per cent (not compounded) is \$550 a year; in	
34½ years the interest alone amounts to.....	\$18,975.00
And you still owe the principal.....	10,000.00
Total	28,975.00
Under the Federal plan you pay \$325 each six months, 68 times	
(34 years).....	22,100.00
And the sixty-ninth time, making 34½ years in all, is.....	524.70
Making a total of.....	22,424.70
And the entire loan, both interest and principal, is paid, and the	
saving is.....	28,975.00
Less.....	22,424.70
Total	6,550.30

"No expense of procuring either loan is considered. But under the Federal plan you know there is but one expense in 34½ years, practically a lifetime, and the interest rate can never be higher.

"The options of prepayment are handled individually in each case, but we are given to understand they are very liberal. In case of sale of the land, death, and settlement of an estate, or if the borrower's earnings permit him to retire his loan faster than the loan itself provides, it is the policy of the bank to accept partial payments each six months. No hard and fast rule is laid down, but the borrower is at liberty to ask any accommodation he wishes along that line and his request will be considered individually.

"The Federal land-bank stock is now paying about 10 per cent and the dividends are paid in cash semiannually.

"The service of appraisal and closing is very prompt, and in all cases that have come to our knowledge this method of borrowing seems to give entire satisfaction."

Mr. TOWNER. Mr. Chairman, I am not going to take the time of the committee at length to discuss the question any further than I have. I am going to ask that a little pamphlet which is published by the American Farm Bureau Federation shall be inserted in the record. It makes a very complete and succinct statement.

The CHAIRMAN. How extensive is it?

Mr. TOWNER. Well, it is 10 pages, but these are rather large print.

Mr. WINGO. I think that ought to go in, because it is a very fine statement of the proponents.

Mr. FENN. I think so, too.

Mr. TOWNER. There are specially some figures here, giving the number of all the farms in each State, the total number of farms; then the average acreage and the value of the farm property; and, also, the aggregate value of property as a loan.

The CHAIRMAN. I notice a map on the back cover.

Mr. TOWNER. Yes; but I would not ask you to go to the additional expense of having that printed. And if I may, I will offer that for the record.

The CHAIRMAN. It will go in at this point.

(The pamphlet of the American Farm Bureau Federation referred to is as follows:)

THE LOAN LIMIT OF THE FEDERAL LAND BANKS SHOULD BE INCREASED TO \$25,000.

(Published by the American Farm Bureau Federation, Chicago, Ill., November 10, 1922.)

The American Farm Bureau Federation calls attention to the following bills now pending in Congress:

H. R. 4131, by Representative Towner, of Iowa

H. R. 4983, by Representative McLaughlin, of Nebraska.

S. 2247, by Senator Jones, of New Mexico.

S. 3445, by Senator Simmons, of North Carolina.

The first three of said bills provide for amending the farm loan act to increase the individual loan limit from the present limit of \$10,000 to \$25,000. The bill of Senator Simmons provides for an increase to \$20,000.

Recognizing the importance of the early passage of one of these measures, and in compliance with requests from actual farmers and farm bureau members and officers throughout the entire Nation, the American Farm Bureau Federation briefly presents herewith the points in support of such amendments and respectfully urges the Members of Congress to expedite the passage of this necessary legislation.

GENERAL PLAN OF FEDERAL LAND BANKS.

The Federal farm loan act provides for the organization of 12 Federal land banks to operate under the supervision of the Federal Farm Loan Board, a bureau of the United States Treasury Department. The general scheme is founded upon the principle that the farmer, with his recognized sound security—the farm mortgage—did not have access heretofore to the best reservoirs of credit at the lowest rates because his security was handled individually. The farm loan act made provision for the pooling of his securities with those of his fellow farmers under a cooperative plan and under the supervision of the Government. The administration of the system has been efficient and

conservative; that it has not served agriculture as extensively as desired is due largely to the present loan limit, which bars a large percentage of the Nation's farmers from its benefits.

The Federal land banks may make loans only to persons who operate the farms on which the loan is desired and they are restricted to loans for agricultural purposes only; that is to say: (1) To purchase land for agricultural uses; (2) to buy livestock, equipment, and fertilizer; (3) to provide buildings and improvements on farm lands; (4) to liquidate mortgages and other indebtedness for agricultural purposes. The borrower is required to take 5 per cent of the amount of his loan in stock of the local loan association, which, in truth, takes an equal amount of stock of the Federal land bank. As stockholders the associations directly, and the borrowers indirectly, share in the net profit of the Federal land banks.

THE PRESENT AGRICULTURAL CRISIS.

The Federal farm loan act now restricts loans to any individual farmer to \$10,000. This is the principal defect in this legislation, and the present agricultural situation calls for its immediate correction. The discouraging decline of farm commodity prices has created havoc generally throughout the agricultural districts of the entire Nation. Farmers, like every other class and interest, have incurred an immense burden of debts, but unlike the others they have been asked to liquidate these debts by the sale of farm products which have declined far below other commodity prices. There is no act of legislation which can alone make the farmer prosperous, because ultimately what he requires is that he shall get a fair price for the things he grows. However, we recognize that adequate credit facilities of the three classes—short-time, six months' paper, eligible for rediscount with the Federal reserve system; intermediate credits proposed for the necessary grain and live-stock turnover up to three years, and the long-term amortized farm mortgage loan of the Federal land banks—will enable the farmer generally to protect himself against a ruinous market until such time as economic forces restore his commodity prices to a fair, compensatory level.

ALL FARMERS NEED FEDERAL LAND BANK LOANS.

The Federal land banks now offer the lowest net rate to farmers. They are a distinct success in cooperative finance and thousands of farmers now bemoan because of the loan limit of \$10,000 are anxious to pool their securities with their fellow farmers in this great cooperative system. Should they be denied access to this system? The most distress in agriculture to-day is prevalent in the best agricultural sections of the Nation where this present loan limit is an effective bar to the complete development of the farm loan system. The reason for this is apparent. The small farmer making but a bare living from his land, in the period of easy credits was denied extensive credit for the all-sufficient reason that his success in farming and his property holdings were not such as to justify the local banker in extending credit. On the other hand, the ranches, the corn-belt farmer, those operating the most attractive units, were the men who enjoyed practically unrestricted credit. They incurred a large volume of debt, based upon farm commodity values which not only the farmers but the bankers believed to be reasonably permanent.

When the break came, tens of thousands of farmers rated well to do, found themselves confronted with an immense volume of debts which had to be paid out of the farm commodities which had seriously shrunk in market value. These farmers and ranchmen became seriously distressed. Thousands of them have gone into bankruptcy, and the amortization of the debts of the remainder over a long period of years at the lowest possible net cost is the outstanding necessity of all such farmers in every State in the Union who are now denied access to the Federal land bank system because of this unreasonable limit of \$10,000.

The loan limit of \$10,000 was inadequate at the time of the passage of the farm loan act in 1916. As land values have advanced, this limit has become more unsatisfactory. In this period of fluctuating commodity values, we are all agreed that the final basic level will exceed the 1916 values. This will be true of land as well as the products of the land. Permanent prosperity is dependent upon a fair level of values of the products and property of every class

and interest. It is certain therefore that the limit, inadequate at the time it was fixed in 1916, must now be adjusted to what experience and conditions have demonstrated is necessary.

WHAT IS THE PROPER LOAN LIMIT FIGURE?

The continued success of the Federal land banks will be assured if the best security is linked with the poorest, the largest farmer with the smallest, and the most productive land from the richest agricultural territory of the Nation, with the less valuable lands where experience has demonstrated loans can not be made with the same degree of profit and safety.

The Federal reserve system made provision for membership of the strong as well as the weak banks of the Nation. The same principle should be applied to the Federal land banks for two reasons: First, it is unjust to deny the larger farmer, who is contributing most to food production, equal opportunity to enjoy the benefits of the cooperative system with the smaller farmer; and second, it is essential also to the smaller farmer that he have the benefit of the better securities to strengthen the system.

Logically, since the farm loan act restricts loans of Federal land banks to actual farmers and for proper agricultural uses, which shall contribute directly to the agricultural wealth of the Nation, there seems to be no substantial reason why all such actual farmers should not be permitted to borrow without regard to the amount of the loan.

However, if a loan limit is fixed by the farm loan act, it should at least be based upon reasonable standards. Those who have argued that there should be a definite loan limit have urged a limit of \$25,000 as representing the amount necessary for an average farm or ranch unit in the best agricultural sections of the Nation. That these average farm units should be financed seems undisputable.

What is required for a standard farm unit? Let us take the State of Iowa for example. The figures of the agricultural extension department of the Iowa State College of Agriculture, of Ames, Iowa, prepared for the consideration of Congress in connection with the bill for increased loan limit pending in 1919, show that the most economical farm units—that is, those which produced the largest net incomes—were the farms averaging 240 acres. The 1920 census figures for the State of Iowa show that the average value of land and buildings per acre is \$227.09. A 240-acre farm would, therefore, be worth \$54,000. There are many thousands of farms in the State of Iowa and other States which have a capitalization of this amount or greater. It is the efficient unit toward which successful farmers are striving.

It may be objected that this is not a fair standard because it is theoretical rather than actual. Let us consider, therefore, the conditions as they actually exist. The 1920 census figures show that the average sized farm in the State of Iowa has 156.8 acres. The Farm Loan Board has restricted loans on any farm to a maximum of \$100 per acre. The Federal land bank of the eighth district with this proper limitation can not serve the average farmer of Iowa with the necessary loan of \$15,000. The census figures show that the average value per farm in Iowa is \$38,941; South Dakota, \$37,837; Nebraska, \$33,771; and Nevada, \$31,546. It is interesting to note that the State of Nevada ranks fourth. This is due to the fact that the average acreage per farm is 745 acres. The census figures show that in many States, while the value per acre is low the units are necessarily large for successful farming and the average farm value ranks well up with States having a higher per acre value but much smaller farm units. If the farm loan act is to be of the greatest service to agriculture, what justification is there for denial of its benefits to those farmers who desire to continue farming in the best agricultural districts? The long-term amortized loan offers the only hope for the tenant or landless man to acquire land in States like Illinois, Iowa, and other typical agricultural States. Why should these landless men be told that to enjoy the benefits of this system they must buy their farms in the semi-arid sections where land values are low? Or must they be compelled to content themselves with uneconomic farm units, thus not only curtailing their productive energy but automatically increasing their debt burdens?

We have attached to this pamphlet an appendix compiled from the 1920 census reports which shows the approximate number of farms in the several States which exceed \$20,000 in value. The table shows that several hundred thousand land owners, even though they are actual farmers and qualified to borrow because of the legal purpose of the loans, are wrongfully barred from participating in this system. Why should 141,000 farms in Illinois, 23,000 in

Colorado, 59,000 in Minnesota, 23,000 in Texas, 25,000 in Missouri be classed as farms which can not be utilized to their full value in procuring the long-term cooperative loans of the Federal land banks?

SMALL FARMERS BENEFITED BY INCREASE OF LOAN LIMIT.

While the Federal land banks have already performed a distinct service to agriculture in the lowering of farm-loan rates on their own mortgages, as well as influencing more favorable rates among their competitors, a study of the prevailing farm mortgage rates throughout the United States demonstrates the necessity for extending the benefit of the system into the territory which, thus far, has not been adequately served.

Bulletin 1047, published by the Department of Agriculture, December 28, 1921, shows the prevailing interest rates on farm mortgages during that year. Appendix 2, on page 12 of this article, is a reproduction of page 13 of said bulletin, classifying these rates according to crop estimates districts. There has been a slight recession in interest rates since these statistics were compiled but they are still substantially correct, particularly in those districts where the Federal land banks have not been able to compete freely, because of the present loan limit.

The Federal land banks make loans in the entire United States and every farmer who needs less than \$10,000 has an opportunity to substitute a 5½ per cent Federal land bank loan for his present 7 to 12 per cent loan. The farmers and ranchmen who need more than \$10,000 are either denied adequate credit facilities or are still at the mercy of the farm mortgage companies. Why should the Federal land bank refuse assistance to these borrowers?

The farm mortgage companies do not generally operate in the semi-arid and lower priced land sections of the country, or if they do make loans in this so-called hazardous territory they charge higher rates. There is some justification for this. Admittedly, experience has demonstrated that the placing of loans in this territory is more expensive and the losses are greater. How then can the Federal land bank give these farmers the benefit of a 5½ per cent rate, the same rate as is given the best agricultural sections? This can be done because loans in the Corn Belt and other highly developed agricultural territory are profitable. These profits enable the banks, therefore, not only to give the lowest net rates and to pay substantial dividends to the borrowers in the best agricultural territory, but as well, to perform a greater service for the cheaper land territory by giving them the advantage of the same rates and dividends. The low rates and substantial dividend earnings of several of the Federal land banks would not have been possible had it not been for the large volume of business in the best agricultural territory. It might be asked "if this could be done in the early history of the banks, why can not it be repeated?" The truth of the matter is that in order to get this large volume of the most profitable business some of the Federal land banks permitted the husband to deed to his wife, or other members of the family, an interest in the farm and the land banks then made loans up to \$10,000 to each of the individuals owning such interest. This practice was criticised and it was abandoned. While we do not believe the practice should be restored, we do understand that had it not been followed in the early days of the organization of the farm loan system it would have been impossible to have procured a substantial volume of profitable business in the better territory.

Now that the Federal land banks are barred from the making of loans in excess of \$10,000 they are confronted with an almost complete demoralization of their organization in the best agricultural States. The secretary-treasurer would prefer to represent an agency through which he can place all of his farm loans rather than a limited few. It is of the utmost importance that the system maintain its organization and continue the development of the business in the best territory. The adequate protection of the bondholders, and the continuance of a favorable bond market at low rates demands that a fair balance of the entire volume of farm loans shall be made in the richest agricultural sections of the Nation. The interests of the small borrowers will also be best served if the banks get a fair measure of this business. They will thereby enjoy lower rates, larger dividends, and better and cheaper service.

Congress should at once correct the defect in the Federal loan act which threatens to drive the Federal land banks out of the rich, profitable territory and to force them to confine themselves to the loans which experienced mort-

gance concerns in the United States have heretofore refused to write or have written only at rates which have been burdensome.

Congress wisely made all the Federal land banks of the system interdependent. The Farm Loan Board, in locating the 12 Federal land banks, in so far as it was possible, balanced the various districts with a fair proportion of the higher valued and the lower valued lands. This will enable the banks indefinitely to maintain uniformly low rates within their respective districts if provision is made for maintenance of this balance. Each of the 12 land banks guarantees the bonds of all the other Federal land banks. It is obvious that the bonds based upon mortgages from the best producing lands of the country, are, standing alone, stronger than the bonds of a bank which are based largely upon the cheaper and less desirable farm lands. Yet no bond purchaser discriminates because of the mutual guarantees of all the banks. It is essential then to the banks operating in the least desirable territory that the other banks shall be given unrestricted opportunity for the full development of their business in the best agricultural sections.

WHY HAS CONGRESS DELAYED ACTION?

The reasons for the increase of the loan limit are so convincing that it would seem that Congress would long since have carried out the recommendations of the Federal land bank presidents and the Federal Farm Loan Board by adopting an amendment increasing the loan limit to \$25,000. There has been in the past justification for this delay; there is none now.

For a long time the work of the Federal land banks was practically stopped because of a suit brought to determine whether or not the farm loan act is unconstitutional. While this suit was pending and there was doubt as to whether or not the system would be allowed to continue, this amendment was not urged upon Congress. The Supreme Court declared the farm loan act constitutional in February, 1921.

During the remainder of that year the bond market was sluggish and the system had difficulty in selling enough bonds to take care of loans under \$10,000.

This objection has now been removed. An offering of \$75,000,000 of 4 1/2 per cent Federal land bank bonds was sold at par on the first day they were placed on the market in the spring of 1922. Again on September 24, 1922, \$75,000,000 of 4 1/2 per cent bonds were sold at a price of 101 1/2, the entire issue being subscribed during the forenoon of the day the sale was conducted.

There is no doubt as to the adequacy of the market for Federal land bank bonds. There will be ample funds at low rates for every actual farmer desiring to borrow up to \$25,000.

NATION-WIDE INDORSEMENT OF INCREASED LOAN LIMIT.

The Federal Farm Loan Board soon recognized the necessity of a larger loan limit, for in their first annual report of November 30, 1917, the board said, on page 25:

"Moreover, in some sections where land values are high and farms are expensively equipped, many farmers, if they need to borrow at all, need to borrow more than \$10,000. Such loans are often exceptionally well secured and desirable, and there seems to be no sound reason why the Federal land banks be prohibited from handling these loans. We therefore recommend that the Federal farm loan act be amended by striking out \$10,000 and inserting in lieu thereof \$25,000."

Again, in the second annual report, page 10, submitted November 30, 1918, the Farm Loan Board says:

"Experience indicates the very decided advisability of a modification of the minimum and maximum amounts of loans which were fixed in the act at \$100 and \$10,000; we are strongly of the opinion that these limits should be made \$500 and \$25,000."

A conference of all of the presidents of the 12 Federal land banks was held at Washington in November, 1919, for consideration of this subject. They unanimously concurred in an argument which was submitted to the House Banking and Currency Committee favoring this increased loan limit.

The American Farm Bureau Federation in the spring of 1921 submitted, without recommendations, through the farm bureaus in the several States, a ques-

tionnaire ballot upon the increase of the loan limit of the Federal land banks from \$10,000 to \$25,000. Returns on these ballots showed 77,505 favoring the amendment as against 16,090 opposed. A number of recent political State conventions, various business men's and bankers' organizations, and representative farmers' organizations, recognizing this amendment as one of the most necessary steps in the restoration of the prosperity of the American farmer, have passed resolutions favoring its early adoption. Scores of daily papers and farm journals have earnestly advocated this increased loan limit.

Five years of administration of the farm-loan system has afforded abundant evidence that the early recommendation of the Farm Loan Board is founded in reason and is necessary to the complete development of the Federal land bank system. The discouraging situation in the best agricultural districts of the Nation emphasize the need for this legislation. The adoption of this amendment will enable the Federal land banks to extend their benefits to many needy and deserving farmers; to add to their financial stability for the benefit of all classes of farmers as well as for the security of the bond holders—in short, to build a universal system equal to the task of adequately serving agriculture, the Nation emphasize the need for this legislation. The adoption of this amendment a general restoration of prosperity.

APPENDIX 1.

State.	Number all farms.	Average acreage per farm.	Value all farm prop- erty.	Average value per acre, land, and buildings.	Farms valued at more than \$20, 000 which exceed areas as specified.	Acres.	Number.
Alabama.....	256,099	76.4	\$690,848,720	\$27.77	1,000	822	
Arizona.....	9,975	381.7	233,392,980	29.70	1,000	401	
Arkansas.....	232,004	75.0	624,773,440	43.14	500	1,197	
California.....	117,670	249.6	3,431,021,861	104.67	175	23,629	
Colorado.....	59,934	408.1	1,076,794,749	35.40	1,000	3,408	
Connecticut.....	22,615	83.8	226,961,617	100.20	175	2,441	
Delaware.....	10,140	93.1	80,137,614	68.56	250	407	
District of Columbia.....	204	27.8	5,927,987	984.01	20	77	
Florida.....	54,005	112.0	339,301,717	69.55	500	1,103	
Georgia.....	310,732	81.9	1,356,683,196	44.75	500	4,244	
Idaho.....	42,106	198.9	716,137,010	60.43	250	9,628	
Indiana.....	205,126	102.7	3,042,311,247	125.08	175	27,800	
Illinois.....	237,181	134.8	6,069,767,035	187.59	100	141,562	
Iowa.....	213,439	136.8	5,526,270,956	227.00	100	132,842	
Kansas.....	163,266	274.8	3,302,889,187	62.30	250	53,805	
Kentucky.....	270,626	79.9	1,511,901,077	64.39	250	10,159	
Louisiana.....	135,463	74.0	589,826,079	47.31	500	2,042	
Maine.....	48,227	112.5	270,529,733	57.02	500	549	
Maryland.....	47,908	90.3	463,638,047	81.25	500	2,981	
Massachusetts.....	32,001	77.9	300,471,743	99.25	175	3,242	
Michigan.....	196,447	94.9	1,703,334,778	75.48	250	5,666	
Minnesota.....	178,478	100.3	3,787,420,118	109.23	175	59,671	
Mississippi.....	272,101	68.9	994,751,835	36.19	500	2,903	
Missouri.....	263,004	132.2	3,401,068,085	88.08	250	25,003	
Montana.....	37,677	698.1	985,961,308	22.15	1,000	5,622	
Nebraska.....	124,417	339.4	4,201,653,992	87.91	250	41,542	
Nevada.....	3,163	745.2	99,770,666	28.11	1,000	365	
New Hampshire.....	20,523	126.9	118,536,115	34.56	500	568	
New Jersey.....	207,702	78.8	3,117,847,948	109.07	175	2,059	
New Mexico.....	29,844	817.9	325,185,999	9.09	2,000	
New York.....	193,195	104.8	1,908,483,201	60.07	250	10,485	
North Carolina.....	262,763	74.2	1,250,166,995	23.76	500	2,109	
North Dakota.....	77,690	406.1	1,759,742,905	41.10	500	22,385	
Ohio.....	236,695	91.6	3,085,696,336	113.18	175	24,606	
Oklahoma.....	191,988	166.4	1,060,423,544	42.08	500	6,057	
Oregon.....	50,206	299.7	61,188,480	49.80	500	5,578	
Pennsylvania.....	202,250	87.3	1,729,333,034	75.14	250	5,496	
Rhode Island.....	1,083	81.2	33,630,796	78.18	250	188	
South Carolina.....	192,693	64.5	953,064,742	65.46	250	5,679	
South Dakota.....	74,637	464.1	2,823,570,212	71.40	250	44,453	
Tennessee.....	20,075	77.2	1,251,964,884	62.53	500	1,927	
Texas.....	436,033	261.5	4,447,420,321	32.45	500	23,976	
Utah.....	25,602	196.8	311,274,728	43.26	500	1,470	
Vermont.....	20,075	145.7	222,738,620	37.26	500	629	
Virginia.....	186,242	90.7	1,196,555,772	55.19	500	3,630	
Washington.....	66,288	196.8	1,057,458,686	60.40	250	12,614	
West Virginia.....	87,289	109.6	496,439,617	42.93	500	1,608	
Wisconsin.....	189,295	117.0	2,677,282,997	98.78	175	30,249	
Wyoming.....	15,748	749.9	334,410,590	19.88	1,000	2,076	

Mr. TOWNER. Now, Mr. Chairman, unless there are some questions, that is all I will trespass upon the time of the committee.

The CHAIRMAN. In your judgment, is the plan suggested in this bill of increasing the limit to 25,000 going to affect the opportunity of the small borrower to get his money?

Mr. TOWNER. No; Mr. Chairman. I can not take time to go through the argument, but in the statement I have introduced the effect it will have upon the small borrower is discussed, and I think the showing is sufficient to indicate that it will benefit him rather than injure him.

The CHAIRMAN. Of course, in your State and in Nebraska and the Central States, there was considerable speculation in lands, which caused considerable trouble. In your opinion, Judge, would this accelerate a similar situation, or would it tend to alleviate such situations?

Mr. TOWNER. I could hardly say that it would alleviate the situation, Mr. Chairman. I can only say that I am quite sure it would not accelerate any speculative transactions in Iowa. In fact, Mr. Chairman, the very unfortunate experience that we have had during the past two or three years in this land boom, as it was called, has made it practically impossible in this generation to repeat it. Everybody understands its ill effect.

The CHAIRMAN. In other words, this would help to finance the unfortunate predicament some of the farmers find themselves in, due to that effect?

Mr. TOWNER. Indeed it would, Mr. Chairman; and I would say regarding the valuation of lands throughout the West that the valuation that has now been suggested is not the boom valuation; it is practically the present valuation.

The CHAIRMAN. Judge, as I understand it, if we increase the loan limit to \$25,000, a farmer would be required to own about \$60,000 worth of property, would he not, including buildings, equipment, and the land.

Mr. TOWNER. How is that?

The CHAIRMAN. The value of the farmer's property, would, of necessity, have to be about \$60,000, in order to get the \$25,000 loan?

Mr. TOWNER. Oh, yes. Mr. Chairman, there would not be very many \$25,000 loans; very few indeed, in fact. I think you might take as a guide in that matter the average number of acres in Iowa and the average valuation. For instance, 160 acres of land in our average farm in Iowa, the valuation being approximately \$200 an acre, would make \$32,000. So that even if the limit was placed, it would only allow about \$16,000 loan to be made on 160 acres of land. But practically, I think the gentlemen will bear me out who know the situation in the Central West, that would be much about the average. The fact is that \$10,000 limit is a very unfortunate limit. A man can not get the \$10,000, Mr. Chairman, he can only get \$9,500; and even if he wants the \$10,000 loan he will either have to go and get a larger loan or accept a smaller amount actually to take care of his outstanding indebtedness, and that is, of course, what most of this is for. It is to take up the indebtedness of the farmers existing already in the mortgage on his farm, and also to take up the indebtedness that has been incurred by him in carrying on his farming operations, for which he is now paying 8 per cent interest compounded every 90 days, a very unfortunate condition, you see.

Mr. STEVENSON. Judge, I would like to ask you what your answer is to the objection which has been recently raised as to this proposition, and that is this: That the purpose of the law and the only justification of it, of course, was to enable the small man to acquire a foothold and own his own land, that the use of this arm of the Government should be confined to building up the rural population in that way, and that the tendency, when you begin to make these large loans is, in the first place, the big man whose loan is very attractive throws out the smaller fellow; and in the next place, it enables the big man to finance big land holdings; and therefore, instead of decentralizing the city population it puts the land in the hands of smaller landholders.

Then there is another objection raised, that it increases by an abnormal amount the number of tax-free bonds that are issued by the system.

Mr. TOWNER. All of those objections, of course, have been urged; and a few years ago they had their weight. I remember only a few years ago some of us—Mr. Wingo will remember that—tried to make an increase in the limit of farm indebtedness, and a year ago last April I introduced a bill increasing the limit of indebtedness from \$10,000 to \$25,000. The sentiment was not strong enough even then among the Members to bring it before Congress for action.

The situation since that time has very greatly changed. The fact is that the great producing sections of the country, both North and South, have gone past what you might call the initial stage; that is, the stage whereby we hope to induce the young man to purchase a farm, and we wanted to help him as much as we could in doing so. That condition is only an incident of the present farm-debt problem.

In the great producing portion of the United States—take, for instance, in the Middle West—the farmers find themselves very seriously handicapped with existing conditions because of the great burden of debt that they are carrying. It is important for us now that we should make their situation just as good as we possibly can, both because we want to aid them and because we want to encourage to the utmost the producing capacity of the country.

A farm of 160 acres of land or of 200 or of 300 acres of land in the best producing sections of the United States could, proportionately, bring to the country the largest production of food products. It is justifiable, then, under that condition, if for no other, that we should do what we can reasonably and fairly, both in the interest of the farmer himself and in the interests of the largest possible production of food products—I think that is ample justification for any action that we might take in this regard.

Mr. Chairman, I thank you very much for allowing me to present this short statement and I thank the members for the courtesy in listening to me.

The CHAIRMAN. Mr. Lobdell, we are ready to hear you.

STATEMENT OF HON. CHARLES E. LOBDELL, CHAIRMAN OF THE FEDERAL FARM LOAN BOARD.

Mr. LOBDELL. The first section of this bill, as you will observe, provides for the payment of the entire expenses of the system by the Federal and joint-stock banks; that is a matter which we have at another time pretty fully discussed with your committee, and all that was said at that time still obtains.

It is the feeling of those engaged in the administration of the system that it, in the first place, should be self-sustaining; and it will be relieved from a great deal of, perhaps, just criticism and burden upon the Government if the banks were to take over the entire expense, which they are abundantly able to do.

Mr. STEVENSON. Judge, right on that point: I notice in yesterday's Columbia paper that they have broken ground and started to construct a bank in Columbia?

Mr. LOBDELL. Yes.

Mr. STEVENSON. That, of course, was done out of the funds of the bank entirely, I suppose.

Mr. LOBDELL. Yes.

Mr. STEVENSON. Is there any limitation on how much you can spend on bank buildings under the law?

Mr. LOBDELL. There is not in the law. The contract for that building was let a couple of days ago. The contract price was \$132,000.

Mr. STEVENSON. Then, so far as I am concerned, I want to make that inquiry, because we have been through a period of criticism of the Federal Reserve Board, which started out by building like they pleased, which caused some very extravagant expenditures; and the question just arose in my mind that while we are speaking about fixing expenditures if we had not better put a limitation on how big an expense they might incur.

The CHAIRMAN. Judge, in that connection, how many banks are contemplating putting up buildings? How many have already built buildings or have been in process of building?

Mr. LOBDELL. In Houston, Tex., and in Spokane the banks have acquired buildings by purchase.

The CHAIRMAN. St. Paul has done the same.

Mr. LOBDELL. Yes; that is right. The heaviest expense was in St. Paul, where the building's first cost was approximately \$200,000.

The CHAIRMAN. I am familiar with that building, and I would say it is a very good purchase. If all have done as well as St. Paul then you need never fear. They have taken over the old Hill bank building there at a bargain.

Mr. LOBDELL. The buildings at Spokane and Berkeley are costing approximately \$100,000. The contract for the building at Columbia has been let for

\$132,000. The Baltimore bank has acquired a lot and is negotiating a building on a little more elaborate scale. But the cost will be about \$100,000.

We have insisted, in discussing the building proposition, on keeping the cost of the building down below \$200,000, and that has been accomplished in every case.

New Orleans has \$225,000 invested in building and ground, and Texas has about \$80,000.

Mr. STEVENSON. As long as we stay along there we need not become alarmed as to the cost of the building.

Mr. WINGO. On that particular point, I suppose you read the debates of the House on the Treasury bill recently, and noticed that one or two Members called attention to certain expenses and abuses that eat up the dividends that should go to the farm borrowers and said they did it for the purpose of advising this committee of it so that we might do something.

Mr. LOBDELL. In connection with the farm-loan system?

Mr. STEVENSON. Yes; the administration paying enormous fees to the secretary-treasurer, enormous concessions and things like that. I suppose that had been brought to your attention, with the suggestion of some proposed legislation along the line to put a limit on it. One man, I think, had a contract by which he was to pay the secretary-treasurer several fees, and had paid so much on each loan, and the stockholders had not gotten any dividends because the dividends had been eaten up by the contact with the secretary-treasurer.

Mr. LOBDELL. Just let me interrupt you that we may have it clear. You are speaking of the administration of the farm-loan association and not of the Federal land bank?

Mr. STEVENSON. Yes. I say, while it was not exactly on this point, I wanted to direct your attention to that discussion and suggest that this committee would be glad, I am sure, to have suggestions as to how those apparent abuses can be corrected.

Mr. LOBDELL. That will perhaps come orderly in connection with another section of the bill. It had not been called to my attention.

What I have said on this question of assuming the expenses relates to the attitude of the Federal banks, and as to the joint-stock banks, which are private concerns, operating for private gain, occupying the same relation to the Government, so far as expenses are concerned, as the National banks do—the same relation to our board as the National banks do to the Comptroller of the Currency. It occurs to us that there should not possibly be any question as to the propriety of assessing against them the services rendered for that. To illustrate, we now pass on all their bond issues. The clerical force in our office is divided about 50-50 in the service of the capitalized banks and the mutual banks. We examine each of those banks twice a year, and must under the law. There are 63 of them as against 12 Federal banks. They do not pay for that examination.

Mr. WINGO. Was that in the Treasury bill which recently passed the House?

Mr. LOBDELL. You mean the appropriation bill?

Mr. WINGO. Yes.

Mr. LOBDELL. I have not followed that. If it carried any provision for appropriation it would have been subject to a point of order, and I have not supposed it did.

Mr. STEAGALL. The original farm loan bank puts that expense on the Government, does it not?

Mr. LOBDELL. Yes. It requires amendment to the act.

Mr. WINGO. His suggestion was that members contended that the entire expense should be prorated around evenly upon the Federal land banks, but the Judge made the suggestion that certainly so far as joint-stock banks were concerned, which are private money-making institutions, that certainly the Government ought not to be at an expense on their account for their examinations and moneys expended for their benefit. I suppose many would contend that both sets of banks ought to bear the expense, but the Judge suggested, and very properly, that there certainly could not be any expense on their account of these profit-making institutions, that that ought to be prorated to them and make them pay it all.

Mr. LOBDELL. We feel that the Federal banks, so-called mutual banks, while it is a mutual concern and its ultimate stockholders are farmers, it still ought to pay, when it is able to, for the service it receives from the Government.

Touching that, these 12 Federal banks have from their earnings and up to November 30 created the statutory reserves required, amounting to \$2,532,500. They had a total undivided profits account of \$4,835,630.33. They have all paid cumulative dividends to the stockholding associations, going back to the beginning and brought down to date on a 6 per cent basis. Half of them are now distributing dividends at 8 per cent.

The CHAIRMAN. You are speaking of the Federals?

Mr. LOBDELL. Yes.

Mr. STRONG. There is one other thing I want to call attention to: Is it not true that the presidents of all of the 12 land banks are in favor of having the expense prorated among them?

Mr. LOBDELL. That sentiment is unanimous, I think, throughout the system.

Mr. FENN. Those are Federal land banks?

Mr. STRONG. Yes.

Mr. LOBDELL. There is also no opposition from the joint-stock banks.

Mr. APPELEY. Mr. Chairman, I would like to ask a question. In the case of an ordinary national bank, and all State banks, institutions, or trust companies the examination is paid for entirely by the bank; is that right?

Mr. LOBDELL. I would not want to answer "entirely," but they are charged a fixed charge, which is supposed to absorb the entire cost.

The CHAIRMAN. In the case of the national banks they assess the banks in proportion to its assets?

Mr. LOBDELL. Yes.

The CHAIRMAN. And the bank pays that?

Mr. LOBDELL. At the time of the examination.

Mr. APPELEY. For the first examination?

Mr. LOBDELL. Yes.

The CHAIRMAN. And they have an examination made by the comptroller each year covering certain other features the expense of which is allocated to the bank.

Mr. WINGO. The theory is that the Government work done for them is reimbursed.

The CHAIRMAN. I should say that this plan is just as equitable.

Mr. WINGO. Your theory for suggesting that is that these land banks should be put exactly on the same basis as the Federal reserve system and Federal banks with reference to Government expense in their behalf?

The CHAIRMAN. And there is no question but that you are going to charge joint land banks their joint expenses.

Mr. LOBDELL. The amendment so provides. If I may carry the theory that we have, without boring you, just one step further. Mr. Wingo knows and you gentlemen who drafted the act know that it should ultimately become a mutual organization, self-sustaining. You have made provision for the retirement of Government capital. I am glad to tell you that on the 1st of January four of the major banks will have completed their retirement and the Government will be out of those banks, and this is about the last step that is necessary.

Mr. WINGO. Have you provided a plan in the bill whereby the permanent organizations can be brought about speedily, where those banks have reached the point where the Government's capital will retire, as provided in the original act?

Mr. LOBDELL. The original act did not require it.

Mr. WINGO. You have made no provisions so as to carry out the object of the original act, although you are doing it, possibly, in a different way?

Mr. LOBDELL. Yes, sir. That is all I would care to say on that section, unless some one of the committee has questions.

The CHAIRMAN. I think we understand that pretty thoroughly, Judge.

Mr. WINGO. Let me see if I can refresh my memory. Right at the moment it escapes me. The limit on the Federal land bank loans now is \$10,000?

Mr. LOBDELL. Yes.

Mr. WINGO. What is the limit on the joint-stock banks?

Mr. LOBDELL. There is no limit in the law. We thought we possessed power and exercised it by fixing the limit, doing it with relation to their capital, and adopted a rule that no joint-stock land bank should make a loan in excess of 15 per cent of its capital. That would be \$37,500 to a \$250,000 bank; and then we fixed a maximum of \$50,000 beyond which we would not approve loans for anybody.

Mr. Wingo. Where the law does not fix that, under the regulations that you have made the maximum under one theory would be \$50,000?

Mr. LOBBELL. Yes.

Mr. Wingo. Under another theory it amounts to \$37,500?

Mr. LOBBELL. The \$50,000 maximum would only be where the bank had doubled its capitalization, as very many of them have.

Mr. Wingo. What is the average amount of the loans made first by the joint-stock bank?

Mr. LOBBELL. Approximately \$10,000.

Mr. Wingo. What is the average size of loans made by the Federal land banks?

Mr. LOBBELL. Slightly under \$3,000.

Mr. Wingo. What is the rate of interest that private loan companies are now making in Iowa and that Middle West territory on farm loans of \$10,000?

Mr. LOBBELL. I am told that very recently a 5 per cent rate is being quoted by some of the major insurance companies.

Mr. Wingo. On 5 and 10 year loans?

Mr. LOBBELL. I would not answer as to the term—5 and, I assume, 10. It is the ordinary loan term of 5 years.

Mr. STRONG. That is plus a commission?

Mr. LOBBELL. Yes; plus such commission as the local agent exacts.

Mr. STRONG. Which generally amounts to 1 per cent.

Mr. LOBBELL. The insurance company is making that rate to its local distributors.

Mr. STRONG. The charge in Kansas is generally 1 per cent per year.

Mr. LOBBELL. Yes, sir; I have heard so.

Mr. STRONG. Which makes the farmer pay 6 per cent.

Mr. LOBBELL. Yes.

Mr. Wingo. My understanding is that that is the best part of the United States from the viewpoint of the private loan companies.

Mr. LOBBELL. One per cent in that territory.

Mr. Wingo. You are getting plenty of farm-loan money at 5 per cent, plus the agent's commission, which runs about 1 per cent in some instances, that the farmer has to pay. I understand in some instances the loan companies pay some commissions.

Mr. LOBBELL. No; they do not pay any commission on the 5 per cent loan, and I would not want to answer you as to the commission that is being charged borrowers. That rate is very recently put in, and we have not a good line on it yet.

Mr. Wingo. It is my information, although it does not come direct. They contend that, including commissions, they are making loans out there at 6 per cent.

Mr. LOBBELL. I should think that is true.

Mr. Wingo. So this bill covers two points on that question: One, the question of the commissions, and the other would be the amortization?

Mr. LOBBELL. Yes, sir.

Mr. Wingo. Those are the two principal items?

Mr. LOBBELL. Yes, sir; assuming a parallel rate.

Mr. Wingo. In other words, take the man who is paying 5 per cent and paying 1 per cent commission. He pays 5 per cent and 1 per cent to the private loan company. He might now go to a Federal land bank and get it at $5\frac{1}{2}$ per cent, could he not, without commission?

Mr. LOBBELL. Yes, sir.

Mr. Wingo. And if we would enact this law he would get it for 5 per cent from the land banks?

Mr. LOBBELL. This law does not change the rate.

Mr. Wingo. I am not saying this in an antagonistic way: What reasons are advanced for proposing to allow over \$10,000 loans from the cooperative mutual system instead of through the joint-stock land banks?

Mr. LOBBELL. I was going to reach that in order, but I will take it up now, if you prefer.

There is an amendment which approaches that question. If you would just as soon, I believe I would prefer to wait until I get to it.

The CHAIRMAN. Judge, as I understand it, section 2 provides that the control of the management is transferred under this act of the Farm Loan Board to the stockholders or the borrowers.

Mr. LOBBELL. The farm loan act, as you recall, provides that when the subscription by associations had reached \$100,000 a permanent organization should be effected, which would consist of six directors chosen by the association and three appointed by the Farm Loan Board.

In passing legislation of 1918 authorizing Treasury purchase, a provision was attached, which, as long as any of the bonds acquired under that provision remained in the Treasury, the temporary organization would continue. The bonds, of course, none of them are still in the Treasury and the banks are still under temporary organization by virtue of that statute.

This act amends that provision by providing that there shall be immediately elected three directors by the associations, three appointed by the Farm Loan Board, and the six so chosen are to select annually a seventh director, who will be chairman of the board of directors, providing if there should be a tie and deadlock the farm loan commissioner shall have the deciding vote in the selection of that seventh director.

Mr. STRONG. It also provides, Judge, that he must be a resident of the district and actually engaged in the business of agriculture.

Mr. LOBBELL. Yes. It removes from the directors to be chosen by the farm loan association the prohibition of being engaged in the banking business. If the farm loan associations desire to let in the bankers, they may do so. The purpose of this amendment to be frank, is to preserve a balance of control and not permit that control to get entirely out of Government control.

Mr. STEVENSON. Does it not preserve the absolute control, practically? All that the Government has got to do is sit down and say to the three men the board appoints, "You must elect so and so; and if those selected by the loan companies do not agree with that man then there will be a disagreement, and then the farm loan commissioner comes in and says, 'I will cast the deciding vote in favor of so and so.'"

Mr. LOBBELL. That is what it is intended to do, exactly.

Mr. STEVENSON. I just wanted to understand that. It is purely a case of giving the men who own the bank no control, but leaving the control in the hands of the Farm Loan Board and the commissioner?

Mr. LOBBELL. I would not say that.

Mr. STEAGALL. Is it not anticipated, that, as a matter of fact, the six directors would be able to work together as a rule in perfect harmony?

Mr. LOBBELL. Unquestionably so.

Mr. STEAGALL. It is not thought that there would arise such a conflict as would bring on any serious controversies at that point. In other words, is it not rather to be supposed that neither side would want a director—

Mr. STEVENSON (interposing). That is anticipated that they may do so. But let us look at the situation. Suppose they do not?

Mr. LOBBELL. Suppose they do not, because the Government should have the control, and that is the position we stand for.

Mr. STEVENSON. Who owns the bank?

Mr. LOBBELL. Who owns the bank? That is a right debatable question, who owns the bank?

Mr. STEVENSON. The Government has no interest in it?

Mr. LOBBELL. No. There are two distinct interests in the bank—the man who has furnished the money to make the loans has invested \$95 to \$5 of the borrowing stockholder, who has invested, not as a permanent investment, but during the life of his loan, and callable at any time at the option of the bank.

Mr. STEVENSON. But he has gotten the security of the liability of each of these farm-loan associations and the security of the whole mass of mortgages and bonds of all these farmers put up, and really the security on the credit of every one of these fellows who own the bonds; and, therefore, he is in the position of a preferred stockholder who had absolute security, and ordinarily is not allowed to vote in the selection of the management.

Mr. LOBBELL. He is not allowed to vote in this.

Mr. STEVENSON. Then if he is not allowed to vote, with all that in it, why should the Farm Loan Board be allowed to dominate the whole thing, when they are only agents of the Government?

Mr. LOBBELL. The answer to that, Mr. Stevenson, is that these farm-loan bonds are endowed with qualities that are not similar to any other instrumentality under the sun. They are declared by the law and the court to be instrumentalities of the Government of the United States. The Government of the United States through the Farm Loan Board has scrutinized the security and certifies to the sufficiency of the security and the legal sufficiency of the bond, on every

one that is put out. They are the moral obligation of the United States and, as we conceive it, that obligation which the Government assumes entitles it to know what the management of each bank is and if it is sound.

Mr. STEAGALL. Do you think the real owners are the borrowers, or the farm-loan system will ever cut loose from the Government and support themselves?

Mr. LOBBELL. How is that? The owners of the system, no.

Mr. Wingo. There are a good many people representing these farm-loan associations who are insisting as one extreme proposition that the Government should be out entirely, and that the associations, their own associations, should absolutely run them.

Mr. LOBBELL. Yes.

Mr. Wingo. Then, there is another extreme group who say that this Government has set up this agency and, being morally responsible for it, the Government ought to control it entirely.

In between—and I am not undertaking to say which view I take: I am just suggesting that the committee has got to decide it—in between is a group of men who say that while it is cooperative it is a cooperative institution, and the borrowers own the stock temporarily, yet they have a vital, selfish interest, not only that the system shall be properly managed and shall be sound but that when they go into the market to market their securities that the investing public must believe that the system is sound. And by having this balanced system you have heard referred to, adopted a plan called the "balancing system," that the temporary owners or borrowers will select half of the directors; then the Government supervising board will select the other half; and then the two groups working together will select a man; and, in order to insure confidence, that they shall select for that seventh man a practical farmer.

We had just as well face it, and I have one man who is a pretty good farm owner in one of the Northwestern States who says "Movements come and go." Suppose that in some particular district an extremely improvident man should go out and capture these three directorships, without the borrowers, who are busy on their farms, realizing that they have been misled, and that is brought home to the board here at Washington; and they say then, for the benefit of maintaining the integrity of that system, that the man that groups put up we are going to scrutinize very carefully and see that he is not a man who has selfish desires but a bona fide interest in the soundness and the practical workings of the system; and unless this venturesome group puts up a practical man like that, here [illustrating] will be a man who sits there and will be a check against that. That is the argument in favor of the balancing system, I am told.

Mr. LOBBELL. That is it exactly.

Mr. Wingo. If the Government is going to put up the control and have the moral responsibilities, we ought to have a check there so that they will not be made to suffer by three men getting control temporarily, it is contended. That is the question we will have to decide.

Mr. LOBBELL. Let me carry your illustration a little further. I was recently in the northwest section where the conditions have been adverse and foreclosures have been necessitated. One aggressive fellow, with his eye on the situation, a director of the Federal land bank, said: "Adopt this or there won't be any favors." Imagine where the credit of the bank goes with a director of that class.

Mr. Wingo. The only argument in favor of the balanced system is that one practical argument that the sole object is to be sure to maintain in the minds of the investing public that the system is properly managed.

Mr. LOBBELL. I would go a step further.

Mr. Wingo. That is the only reasonable purpose?

Mr. LOBBELL. I think I would go one step further, Mr. Wingo, and that would be personal, and I would not speak for anybody but myself on the board, the whole pathway of progress of cooperative enterprises is strewn with wreckage that came from internal dissension. A \$60,000,000 land bank is too big a thing to trust to the possibility of internal blow-ups and the scramble for offices among the people who have no interest.

Mr. Wingo. That is the central idea?

Mr. LOBBELL. Yes.

Mr. Wingo. Unless they have a responsible check, there may be abnormal conditions arising in these banks?

Mr. LOBBELL. Yes, sir.

Mr. Wingo. That is what has been urged to me with a great deal of seriousness and force.

Mr. LOBBELL. In discussing the association matter, which we will approach in a moment, I will amplify the financial danger of the association election of directors.

Mr. STEAGALL. The argument is also, is it not, that the farmer is benefited by his association with the Government in this scheme, rather than being in the hands of an enemy?

Mr. LOBBELL. I do not see where you figure on the enemy, unless you figure on the Government being his enemy.

Mr. STEAGALL. The policy of the Government in this whole scheme has been to foster and be able to assist the farmer through these organizations?

Mr. LOBBELL. Yes; and there has been no protest from the farmers against the governmental control of these institutions.

Mr. STEVENSON. The reason I raised that question is that it is a pretty live question whenever you get it properly agitated, as it will be in the district you are speaking of. They say: "Look what you have done. You fellows own the stock; your mortgages are the basis of all the credit. These men down there are appointed merely to supervise this thing, and yet they are given absolute control, and you have no way of getting at them." Then they will go on to say that it could not be, because you would tear the thing up, because nobody is allowed to vote here, except somebody who has actually a monetary interest, which they have not got.

Mr. LOBBELL. Your assumption is there in the method of the election.

Mr. STEVENSON. I mean of the three and the man with the balance of the power.

Mr. LOBBELL. In the election of the three, the farmer does not get any vote.

Mr. STEVENSON. His representative, the association, does?

Mr. LOBBELL. The secretary-treasurer does.

Mr. STEVENSON. Well, he is their representative?

Mr. LOBBELL. And so is the Federal Farm Loan Board his representative.

Mr. STEVENSON. The Farm Loan Board is his representative, chosen to be a director, and the Farm Loan Board, you say, had to have a check on it; and I am just giving you some of the difficulties that arise. I have been through a good many rows in corporations, and I know how well human nature runs sometimes, and how bad it runs sometimes. The Farm Loan Board has a very effective check on these banks, in that they can not issue any bonds or get any money without the approval of the Farm Loan Board. That is a very effective check, and they can make that absolute.

I agree with you that it is best to safeguard it so that this Bolshevik can not come in there and get it. But whether it is best to fix it the way you have it here is a very serious question, because you just frankly do not propose for the people who really own the system to control by the election of the majority of directors.

Mr. LOBBELL. Yes.

Mr. STRONG. Because their individual interest is so small that they will not give it much personal attention.

Mr. STEVENSON. That may be. I am talking about the ultimate result of this thing.

Mr. LOBBELL. Your argument is logical, but the facts are against your argument. There are four thousand four hundred odd of these associations. Last year less than 400 out of 4,000 held annual meetings; that is, had enough interest to get together and elect directors. You get into the question Congressman Wingo raised.

We have a concrete case in Texas, where over \$7,000 had been distributed to a farm-loan association in the form of dividends from the Federal land bank, and these people to whom they intrusted the management of the bank had taken so little interest in that that their directors had given this man a contract by which he made a continuing compensation big enough to absorb that entire dividend. That is typical of their inattention.

Mr. STEVENSON. There is no doubt about that.

Mr. LOBBELL. Let me go a step further; and before you conclude the hearings I want to ask Mr. Quick and Mr. Lever, whom you gentlemen know to be active cooperators, and who have had charge of farm-loan associations, to appear before you.

There is a fundamental difference between the so-called cooperative loan associations and any other cooperative enterprise. You have down in your State

cotton growers and tobacco growers. They have an annual need. They have a crop of cotton and tobacco every year, and they have got to be on the job all the time to get the benefits.

Mr. STEVENSON. Our experience has been that we can not get them to pay any attention at all to the business of the association after they get their loan.

Mr. LOBBELL. Our records disclose that the reports of those annual meetings indicate less than 400 had a quorum of the stockholders present.

Mr. STEVENSON. We are getting this in the record, I guess. I want something to justify this assumption for putting the authority all in one place, is the reason I got after it.

Mr. LOBBELL. It is proper, because it is the pertinent question.

Mr. WINGO. One of the most difficult questions. We had this same trouble in connection with the directors of the Federal reserve bank. We finally arranged for three to be selected by the banks therein and three by the Federal Reserve Board, and then we permitted member banks to elect a certain group to represent the public and be their own directors in the member banks. And the question was how to balance it so as to get stability against what you might call an extreme condition that might arise, but on the theory that both sets would be working for the good of the system, where you had it pretty well balanced, and that in case of some extreme emergency that you would have some safety valve by which you could get safety. I recognize the force of the other argument.

Mr. LOBBELL. The national bank and the shareholder of a national bank as a participant in the Federal reserve system is on a different footing. The shareholders there have a permanent investment that they have made in the hope of profit; the shareholder in this is not properly spoken of as a shareholder; he is a contributor to a guaranty fund which runs the average lifetime of his loan.

Mr. WINGO. And his selfish interest is different from that of the private or national banker, because their only selfishness, aside from the general management of the system, is the getting his dividend that might be coming to him.

There is a question Mr. Stevenson very well put, the view which is opposed—

The CHAIRMAN (interposing). As a matter of fact, there are three interests: You have the borrowers, the investors, and the Government's interest, which is supervisory. The interest of the borrower mainly ceases when he gets a loan, except that he is interested in getting the dividends on the amount of the stock he takes, which is additional security to his loan, and is a small item, of course.

Mr. STEVENSON. It tends to reduce it?

The CHAIRMAN. It tends to reduce it: yes.

Mr. LOBBELL. There is another very distinct interest, and it is named in the bill—that is, the public interest. It is the task of you gentlemen legislating and of the farm board in administering the system to so legislate and so administer that the system is kept open to the public service. The fellow on the outside who wants to get in and get a loan has a very vital interest in the continuity, soundness, and activity of the farm-loan system.

Mr. STEVENSON. The big interest is the perpetuity of the system so as to conserve agriculture generally.

Mr. LOBBELL. The continuing interest is a very permanent interest, and that is the one that we think loans are made on, to take Congressman Stevenson's apt illustration. If the Bolsheviks should capture a South Carolina bank and there pursue the process of neglecting collections or in making radical loans that the board did not approve, we could bring that bank to a standstill, but it would bring the service in that land-bank district to a standstill and discredit the Federal farm-loan system.

I am particularly convinced that the success which we are pleased to believe it has had has rested very largely upon continuity of management and continuity of purpose and plan and system—not the best Farm Loan Board, maybe not the best people in the bank; but you have a single directing management, and I think that is where our success has come from.

Mr. STEVENSON. I think the weak point in the whole thing is the secretary of the local association. I think he is usually a man in the country very much opinionated and nobody else knows anything.

Mr. LOBBELL. The possibility of that Texas situation is somewhat startling, but if you stop to think about it it is not so much so. There was 8 per cent

territory; here was wide awake associations [illustrating] using 54 per cent money and all between is one-fourth per cent a year, and that only made 54 per cent. But he has taken away that \$7,000 that ought to have gone to those people.

The only other change that section makes in the machinery is this: The law as originally drafted provided that directors selected by the association should be elected from the district at large; this bill provides that the Farm Loan Board shall divide the land bank district up into director's districts, having created it in proportion to the borrowers and associations within a given district. The thought in mind will be illustrated in Congressman Nelson's district, where North Dakota by concentrating the principal directors could elect all of them; and the idea is to create three districts fairly outlined as the number of association borrowers meet in each district, and each of those districts elect its own directors.

Mr. WINGO. How did that plan work out?

Mr. LOBBELL. That is, the voting strength of the association rests on the amount that has been borrowed through it with the limitation not exceeding 20 votes to one shareholder.

Mr. WINGO. We will be asked as to the number of provisions in each district. For illustration, I believe in my district there are three States?

Mr. LOBBELL. Yes.

Mr. WINGO. That is, Illinois, Missouri, and Arkansas, is it not?

Mr. LOBBELL. Yes.

Mr. WINGO. Illinois, we will assume for the purposes of this bill, will turn in \$35,000 loans. Would it not be possible to have in that one State loans in majority amounts, and what would be the effect?

The CHAIRMAN. There is a limitation that they shall be entitled to only so many votes.

Mr. LOBBELL. That is the answer.

Mr. WINGO. What I am talking about is, how are you going to divide the districts, when you take into consideration that you are going to have one territory consisting of all of Arkansas and that of Missouri?

Mr. LOBBELL. I would suggest a change in that.

Mr. WINGO. You see what I am driving at?

Mr. LOBBELL. Yes. After the word "borrowers," the amount of loans outstanding should perhaps be stricken out and inserted, instead of—

Mr. WINGO (interposing). I thought there might be criticisms of it.

Mr. LOBBELL. I see how that can be improved. Strike out the words "And amount of loans outstanding in."

Mr. WINGO. You are pursuing the policy of trying to have each of those natural political subdivisions all represented?

Mr. LOBBELL. That would reduce the \$25,000 men down to the same basis as the \$2,000 men.

Mr. WINGO. You can see where you would have trouble. Say, for illustration, you had a district or division made by part of Arkansas and Missouri, and another part of Illinois, and then you would have Illinois in part of two districts, which would leave Arkansas without a single member, and maybe you would have two from Illinois. You would produce a friction that would cause criticism of the merits or the impartiality, and I suppose you want to avoid that if possible.

Mr. LOBBELL. And the suggestion is made to do that, Mr. Wingo.

Mr. STEVENSON. As I understand, on page 5, lines 15 to 20, you provide that the association shall cast a certain number of votes, and also each borrower shall cast not exceeding a certain number of votes.

Mr. LOBBELL. No; that is where the individual borrowers—

Mr. WINGO (interposing). Where they borrow through agencies and associations?

Mr. LOBBELL. Yes.

Mr. WINGO. I understand.

Mr. LOBBELL. That is in addition to the original provision. Under the original provision the borrower did not have any votes; this gives him a voice.

Section 6—that is, section 3 of this bill, page 7: That sets up a central organization, composed of the directors of the presidents of the subscribing Federal land banks, who are given permission to select an additional director, and this organization having power to sell the bonds, the powers of the land bank, being the bank of issue for all of the banks, and would provide for but one form for the farm-loan bonds instead of 12. It provides that when your bank, Mr.

Strong, wants to make an issue of bonds, it puts up security and the central organization makes the bond issue on its behalf.

The CHAIRMAN. That creates entirely new organizations independent of the Federal Farm Loan Board?

Mr. LOBBELL. Not independent; under the supervision of it.

The CHAIRMAN. Under the supervision of it, but it is a new department which will be a complete organization within itself. Of course, that association has a great many privileges and responsibilities. How elaborate an organization will be required.

Mr. LOBBELL. You see, it does not make any loans; and it is merely a mechanical organization, executing and delivering the bonds of the several—

The CHAIRMAN (interposing). That is the selling agency which we were discussing a few moments ago?

Mr. LOBBELL. Yes; and whatever force the sales might call for.

Mr. STRONG. That would make all the bonds of the 12 banks uniform.

Mr. LOBBELL. Yes. They are, of course, in law, uniform now. But we run into this situation: The State of New York by legislation has sanctioned the purchase of bonds by guardians, trustees, and fiduciaries in control of the State, but limiting it to the bank of that district. The State of Minnesota did the same thing; and it creates, of course, a discrimination between banks that does not exist. There is that urgent reason for this unifying in addition to the mechanical process. All of these bonds have to be printed here and sent to the various quarters of the country, executed and returned; and under the present plan all sold under the direction of the Farm Loan Board and brought back here for distribution.

Mr. STRONG. It would tend to provide better sale of the bonds at a lower rate of interest.

Mr. LOBBELL. It would unify the bonds and reduce, in our judgment, the expense of printing and execution and sale.

Mr. STRONG. And would prevent any discrimination between the bonds of the different banks because of laws that might be enacted by the States?

Mr. LOBBELL. Yes. It does for the banks very much what we did in legislation for the Federal reserve banks in reference to their issue. Those of you who participated in the original draft remember each Federal reserve bank issued Federal reserve notes, and then came along subsequent legislation by which all notes were issued by the Government on behalf of the Federal reserve bank. It is very closely analogous in that respect.

Mr. WINGO. Two questions arise in my mind on the subject of the central land bank, and I recall from reading the bill hurriedly only in two respects does the Farm Loan Board exercise any authority or discretion with reference to this bank at all. The first is the initial discrimination of determining whether or not you shall organize a bank?

Mr. LOBBELL. Yes.

Mr. WINGO. If you once decide to organize the bank, and then it proceeds to organize, you will have absolutely no power or control over it, except that you supervise it in the making of its by-laws?

Mr. LOBBELL. Oh, no; it can not issue a bond without approval of the Farm Loan Board.

Mr. WINGO. I am going to get down to the different points. One of them, you see, has issued bonds?

Mr. LOBBELL. Yes.

Mr. WINGO. It makes application for the approval of such issue. You have got to approve their issue of bonds?

Mr. LOBBELL. Yes.

Mr. WINGO. What else may you do?

Mr. LOBBELL. Nothing else, except to have general supervisory power, and there is nothing else it can do but issue bonds.

Mr. WINGO. It can fix salaries and incur expenses.

Mr. LOBBELL. We have the same supervision over it as the Federal land banks.

Mr. WINGO. Just where is that? Here is what I think you intended, to be frank: I think the draftsman intended something and I do not think it is sufficient—page 10: "To prescribe, by its board of directors, subject to the supervision and regulation of the Federal Farm Loan Board"—but what is it that is subject to the supervision and regulation of the Farm Loan Board? The prescription of by-laws. I think there is where you intend to give blanket authority. I think it might be as well at some place where you originally provide

which bank shall be subject to the general supervision and control of the Farm Loan Board, with the purposes provided by the Federal farm loan act. In other words, let you have a general supervisory control or residuary power to meet some unknown exigency which might arise where the question would be, having established an independent corporation and gave it a corporate existence, and having undertaken to say that in certain instances the Farm Loan Board had power to supervise, approve, and control—that having specifically enumerated one such power, it excluded the others?

Mr. LOBBELL. Yes.

Mr. WINGO. You see the point I am driving at. I want to direct your attention to that and see if you should have a broad general supervision there.

Mr. LOBBELL. If there is not such a provision, it should be inserted at the end of the section on page 18.

Mr. STEVENSON. I think it is practically inserted here, but in language which is ambiguous—"the supervision and regulation of the Federal Farm Loan Board"—the following thing, and all of them are subject to supervision—"by-laws not inconsistent with law regulating the manner in which stock shall be transferred, its general business conducted." They intended to give supervision.

Mr. WINGO. Let me make this suggestion and see what you think of it: What do you think of it right in the beginning of page 7, where it says, "That the Federal Farm Loan Board may, in its discretion and as hereinafter provided, have general supervision and control of said board for the purposes of this act"?

Do you not think that might be better, and then you would make the further change that you suggest? In other words, you are going to have immediately this situation: Whenever you undertake to set up a central bank, which will be a bank of bond issue and also be authorized to deal in Government bonds and a lot of other things, you are going to have a whole lot of people who will be afraid of a central bank of that kind, and they want it held down for the purposes of the farm loan act and subject to supervision and control of the board that executes and administers the farm loan act.

Mr. LOBBELL. If the provision there is not broad enough, I suggest that you insert at the end of the section on page 13, in substance, the following:

"The Federal Farm Loan Board shall have the same supervision and authority over the central land bank that it has over other land banks."

Mr. WINGO. Suppose you go over it and figure on these changes that you have in view.

Mr. LOBBELL. There might be some question whether that supervision is as broad as it was intended to be.

Mr. WINGO. If you are going to have it, I want to see that it will carry out your purposes and still be safe.

Mr. LOBBELL. That is very well suggested.

Mr. WINGO. What is the necessity for that?

Mr. LOBBELL. The necessity arises, first, from the tendency to discriminatory legislation, which establishes a different market for the bonds. To illustrate, the Springfield bond, with its access to the fiduciary market in New York City, is worth one-half to a cent more in the market than the St. Louis bond. It is to stop that; the entire mechanics of it will be simplified by centralizing here in Washington the physical work of executing and delivering the bonds, as against shipping them to the several points and bringing them back; and the final administration of the sales, which is the proper capacity of the banks by these organizations, of which they are the component parts and controllers, subject to the review of the board. A considerable purpose is to relieve it of the function which it has assumed, and with which assumption I am satisfied, but the assumption of a function that you gentlemen did not intend—that was to be the sales agent for the land banks—and thus creating their own sales agents to manage these banks, relieving the board.

Mr. WINGO. Why should the board be relieved of that responsibility and right?

Mr. LOBBELL. There is one outstanding reason, Congressman Wingo: Manifestly the policy pursued, inaugurated by Commissioner Norris, of selling the bonds is the very best one possible. It reduces the cooperative marketing idea to an exact science; assembles the bonds for the 12 banks, sells them in one grand total at the best market price, and every way to the best advantage.

Somebody has got to make a contract for the sale of those bonds. It is clearly demonstrated that a competitive bidding market is not the way, and

It is not a pleasant task for a public official to sit down and make an ex parte contract.

Mr. WINGO. It is the task of a business house and not the task of an administrator of a public service.

I want you to give in detail the reasons why the board can not perform all the functions that are supposed to be performed and administer all the duties that are supposed to be performed by this central land bank; in other words, why can not the board by a proper provision and organization inside the board's department here set up a bond-selling division of your system; and if you think it wise to have just one issue of bonds, have the board given the authority to issue and sell the bonds in the name of the whole system? Why set up a separate, distinct organization and machinery? Why not have that same organization as a division of the Federal Farm Loan Board?

Mr. LOBBELL. I endeavored to answer that and did not observe when I was nearly through that you had been called out: First, the physical process—the Federal Farm Loan Board has not any time, and they are not exactly indolent, either, and none of us would undertake the task of signing all these bonds; it would be beyond the physical capacity of any man to do that and do anything else.

But I said that the fundamental objection of the board is this: That the best method beyond peradventure of selling bonds is the method pursued of employing salesmen and selling them in bulk. To do that you must make a contract. That is the task of a business institution and not of a public administrator. It is an uncomfortable feeling to be making an ex parte contract on behalf of these banks all the time as a public officer. I would not hesitate to do it for my bank; I would not hesitate to do it as the administrative officer of a central bank or of a land bank. But you can appreciate the discomfort of that situation, Mr. Wingo, in a public officer.

Mr. WINGO. I will be frank with you and say this critically, not accusing any member of the board of being lazy, but I did not catch the point you are making there. Why should they have any discomfort in making these contracts with the purchasers for the banks in a controlling and supervising capacity?

Mr. LOBBELL. You are always open to the accusation of having made a preferential contract or having made a contract for personal reasons. I do not know whether these insinuations have been made.

Mr. WINGO. I appreciate what you are driving at, but would not that come home to you? Can this central board at the head of the responsibility to the public escape that criticism that goes to every other public official of favoritism in those other things?

Mr. LOBBELL. I am fairly sensitive to criticism, but I think that is asking too much of any public official. The task was committed to the land banks of selling the bonds. If you ask each bank to try to peddle bonds, you would have chaos and competition with each other and a difference in the rates.

Mr. STEAGALL. I do not see occasion for so much difference in the rates when the bonds are all one so far as the banks are concerned.

Mr. LOBBELL. It is just the psychology. There is no answer. But you go up into New England before we had that legislation and those bond buyers would reach for the bonds of the Springfield bank, and yet I know and everybody else knows that it is the poorest agricultural section in the United States.

Mr. STEVENSON. And the poorest bank in the system from a money-making standpoint?

Mr. LOBBELL. It was the slowest in development; yes. And it is the hardest problem to have good security, and yet the psychology of people is such that they will buy a bond of the local bank and discriminate. You have got to go out of the territory of your bank, Mr. Stevenson, and yours, Mr. Steagall, and pretty largely yours, Mr. Wingo, to sell bonds. The bonds have got to be sold outside of the borrowing territory of the banks. The territory of the three land banks relatively absorb the paper of the 12 land banks, and have got to absorb it.

This agency is set up, composed of the presidents of the 12 land banks, whose job it is to sell the bonds, with the possible addition of one director, who would be a managing director, and to sell in a centralized way the bonds that we now sell for them and the contracts that we now make for them pursuant to specific authorizations in each case. To me it appears the sound and logical way to do it.

Mr. STEVENSON. I understand that all of these bonds would be issued by the central banks?

Mr. LOBBELL. Yes.

Mr. STEVENSON. But it, of course, shows in the record of reserve-bank issue?

Mr. LOBBELL. Oh, yes.

Mr. STEVENSON. And shows how much is paid up.

Mr. LOBBELL. It shows how much is paid up, and shows primary responsibility. The banks make application for bond issue just as they had made application for the deposit of security. The Farm Loan Board approves the issue of the bonds and certifies that fact to the central bank and it then authorizes it to make issue of the bonds.

Mr. STEVENSON. How are the expenses of the central bank to be paid?

Mr. LOBBELL. Presumably from its own earnings. If it fell down, it would have to be assessed against the—

Mr. STEVENSON. The stockholders, which would be the 12 banks?

Mr. LOBBELL. Which would be the 12 banks. There would be no other stockholders.

Mr. WINGO. What do you do with earnings above expenses?

Mr. LOBBELL. They go into surplus account.

Mr. WINGO. What would you finally do with it? If it was economically managed there would be a surplus. Do you provide for distribution at any particular period over and above expenses?

Mr. LOBBELL. I think not at the moment, and I do not think I would. It started with small capitalization, relatively, and I think that in perpetuity its growth will find use for its funds in the proper control, taking care of markets and the administration of its task of selling bonds as its power grew. It takes a lot of money to sweep up the bond market.

Mr. STEVENSON. Ultimately that would belong to the stockholders, anyhow. Accumulations there does not hurt it.

Mr. LOBBELL. They could by the by-laws for distribution at any time they want to.

Mr. STEAGALL. Who is going to constitute the officers in the central bank?

Mr. LOBBELL. The presidents of the 12 Federal land banks are the directors.

Mr. STEAGALL. Would it be practicable for them, scattered as they are throughout the country, to conduct the business of this central bank with headquarters in Washington without a large and unnecessary expense in transportation and all that kind of thing?

Mr. LOBBELL. I think it would under the supervision of the Farm Loan Board. That organization would not do anything for them that we do not do now, or that they do not come here and do themselves. They come here four times a year for conference with us—come here in connection with their bond sales, discuss its details, and authorize it.

Mr. STEAGALL. They would have to come much more often than four times a year to conduct this bank?

Mr. LOBBELL. I do not think so.

Mr. STEAGALL. As the business grows and increases?

Mr. LOBBELL. I do not think so, not with the supervision of the Farm Loan Board, which is as rigid as you choose to make it.

Mr. STEVENSON. This is merely called "a bank" to have a name? It is the central issuing and selling agency of the combined 12 banks?

Mr. LOBBELL. It is the central selling and issuing agency; it has no other function.

Mr. STRONG. The benefits would be a uniform bond and escaping from objectionable legislation by the different States and the saving of money in the issue and sale of the bonds?

Mr. LOBBELL. In the printing, distribution, and sale.

Mr. STRONG. It would undoubtedly secure a better bond market?

Mr. LOBBELL. It ought to, ultimately; if not a better bond market, it ought to secure a little more economical distribution.

Mr. STEAGALL. Right at that point, Mr. Lobdell: Would the offers of bonds be by the various banks, or would the offer be separately and distinctly by the central agency here?

Mr. LOBBELL. No; it would issue its own bonds, based on these.

Mr. STEAGALL. And they would not disclose at the time of any particular sale the identity of the particular bank to which the funds would go and which security would back it?

Mr. LOBBELL. That is right.

Mr. STRONG. That is the reason it would help in the sale of the bonds.

Mr. STEAGALL. The bill makes the provision that each of the banks must be reliable?

Mr. LOBDELL. Yes; it does not change the status at all, except in the matter of the signatures.

Mr. FENN (presiding). I see on page 9 that you provide for an additional director—the thirteenth director?

Mr. LOBDELL. Yes.

Mr. FENN. To serve for a period of three years?

Mr. LOBDELL. Yes.

Mr. FENN. What are his duties—to break a tie vote?

Mr. LOBDELL. The idea of that would be to get as good and experienced bond man as you could and put him in charge of that bank.

Mr. FENN. His duties are not specified.

Mr. LOBDELL. That is the theory. These 12 men can not, of course, give any time to it.

Mr. FENN. I understood that, but I did not know whether the chairman of the board would be a resident of Washington.

Mr. LOBDELL. That would be the theory, that he make his residence here, or perhaps it might be found better to establish his office in New York.

Mr. FENN. Would there not have to be a provision for a paid man, if we provide that, because I see in some other part of the bill—

Mr. LOBDELL (interposing). Those 12 directors do have the power to create offices and fix their compensation.

Mr. FENN. You proceed to provide for an additional director?

Mr. LOBDELL. But have clothed him with another office, called "manager." They can prescribe—I believe it is covered in the general authority.

Mr. STEVENSON (presiding). Your language is a little unfortunate right there: "There shall be no other directors, except that such directors may, in their discretion, by proper resolution, provide for an additional director, who shall be elected by them and serve for a period of three years. Directors of such corporation shall receive no compensation as such directors, except their actual and necessary expenses in attending directors' meetings, and when otherwise employed in the service of the corporation." There is no provision made—if they elected that thirteenth director an officer he is not going to be paid anything except his expenses.

Mr. STEAGALL. They would have authority under the general laws to take care of that.

Mr. LOBDELL. It is not open to that construction.

Mr. WINGO. I think you will find that where the Government sets up an agency that implies authority to set up all the employees and machinery necessary.

Mr. STEVENSON. It carries implied authority unless expressly provided. But here the thirteenth man is a director, and it is expressly provided that the directors shall not receive compensation as director either when traveling or otherwise engaged in transacting the business.

Mr. STEAGALL. You are talking about the provision in this last act.

Mr. WINGO. They might get a whole lot of \$35,000—men as employees, and yet not be able to pay the head director.

Mr. LOBDELL. You did not put any limitation on the employees of the land banks, and it would have been dangerous and unwise if you did.

Mr. WINGO. We are not always going to be sure that we are going to have you, even, on the board, Judge.

Mr. LOBDELL. Of course, that is up to the wisdom of Congress.

Mr. WINGO. Your viewpoint is to get a general restriction and then go along and employ bond salesmen and traveling salesmen and pay them absolutely unlimited salary. There is no use to justify yourself; if you set up this agency, you are going to have a big corps of employees.

Mr. LOBDELL. You and I agree to have the same supervision over the Farm Loan Board as you have over the Federal land banks. The Federal Farm Loan Board would be culpable if it permitted any additional salary to be paid.

Mr. STEAGALL. If you give a man connection with the Federal Government and give him authority he is going to employ and set up machinery, and every one of those fellows is going to do the same thing if allowed.

Mr. LOBDELL. I wish you to except the Farm Loan Board.

Mr. STEAGALL. The Farm Loan Board right now is setting up this new piece of machinery, is the point I am making.

Mr. LOBDELL. The Farm Loan Board has been given carte blanche to employ experts, attorneys, and anybody else, and we have gotten by for six years without a law department, and I challenge any other organization in the Federal Government to make a comparable showing.

Mr. WINGO. Mr. Steagall's suggestions were predicated upon the theory that even the Farm Loan Board would not forever forego and be an exception to these departments in Washington.

Mr. STEAGALL. I am not saying that as a criticism of anything the board has done.

Mr. LOBDELL. That is a very cogent argument against Government supervision of anything, but I would not want to undertake to supervise an institution where the employees were limited.

Mr. WINGO. There ought to be some limit on salaries and allowances.

Mr. LOBDELL. There was not any in the Federal land bank.

Mr. STEAGALL. You are mistaken, Judge Lobdell, if you will pardon me, in that statement. The board itself was not limited in any way by the original act in so far as the particular machinery set up by the act was concerned, and afterwards there were limitations just as your salary was fixed in the original act. But they will tell you on the floor of the House when you come to this: "Here are some more officials that nobody knows what they are going to be paid, and commence talking about the Shipping Board, and Brother Strong or somebody defending this will be in trouble."

Mr. LOBDELL. We now come to section 9, page 13.

Mr. WINGO. Just what change do you make there, Judge?

Mr. LOBDELL. Section 9 provides for the voluntary liquidation of the associations upon a vote of two-thirds of the shareholders.

Mr. WINGO. What is the provision? I have forgotten.

Mr. LOBDELL. There is not any. It was evidently inadvertently overlooked. There was a provision for the land bank and you did provide for joint stock, but still there was no provision covering liquidation.

Mr. WINGO. In other words, the present act makes provision for voluntary liquidation?

Mr. LOBDELL. That is it.

Mr. WINGO. And you offer a concrete provision whereby in detail upon petition of two-thirds of the stockholders, you may dissolve that organization, and what becomes of their stock?

Mr. LOBDELL. The shareholders then are given a like amount of stock in the bank?

Mr. WINGO. They surrender stock in the local and take stock in the Federal land bank and are put upon the same footing as the individual borrower, is that the idea of that provision?

Mr. LOBDELL. That is all there is to it. Line 14 covers that.

Mr. WINGO. The next is section 12 of the original act?

Mr. LOBDELL. Yes.

Mr. WINGO. Section 5, page 15, of this act. What change do you make there?

Mr. LOBDELL. The change we make is in subsection (d), the last one.

Mr. STRONG. Line 14.

Mr. STEAGALL. That is the only change in that?

Mr. LOBDELL. That is the only change in that, and that is to liquidate without limitation the indebtedness of the owner of the land mortgage.

Mr. WINGO. So that for all practical purposes now the real change you are making is that he can now get a loan to liquidate existing indebtedness covers one of the original purposes for which he might get a loan from the bank?

Mr. LOBDELL. Yes.

Mr. WINGO. In other words if he owed the bank now on account of a limousine—just to use an extreme illustration—he could not get a loan from the Federal land bank for the purpose of paying off that debt.

Mr. LOBDELL. No.

Mr. STEAGALL. Under this proposal if Mr. Steagall's constituents have lost money speculating in oil in my State, they could get a loan to pay that off?

Mr. LOBDELL. Yes.

Mr. STEAGALL. It is stronger than you put it, Mr. Wingo. Not only is that true, but the other limitation would not be there. They could go with a knowledge of their rights under this law and engage in all kinds of business you are talking about and have it taken care of.

Mr. STRONG. But if a farmer has been unfortunate and lacked in the proper judgment and invested his capital and got in debt, should he not have a right through this system to pay his debts so as to go on with his farming?

Mr. STEVENSON. This will liquidate any indebtedness?

Mr. LOBBELL. This will liquidate any indebtedness. If a man is on a farm making a living off the farm, and must be to borrow under the Federal farm loan system, I think he has to pay that indebtedness no matter how it is incurred from the proceeds of his farm, and as it is a charge upon his farming enterprises, we fail to see the logic of denying him that credit.

This provision puts him on the same basis as the borrower when you are organizing an association. If you are organizing an association in your town and there is not one there, and some borrower has bought a limousine or anything else they sell in Arkansas, there is no limitation when he goes into the association; he can borrow to pay anything he has owed for a year.

Mr. STEVENSON. If he has any debts and has security and he has a note out—

Mr. LOBBELL (interposing). He has to pay it out of that resource. Here is what happened in the last three years in your State, Mr. Steagall: Your cotton farmers lost money and went broke, and they had indebtedness in the bank that was incurred for every household purpose, and they had to pay it out of the funds. There was not anything else to do.

Mr. WINGO. That is permissible now?

Mr. LOBBELL. No.

Mr. WINGO. Any household expenses incurred living on the farm is part of the farming operations.

Mr. LOBBELL. The loss of money in farming operations—you could not say he borrowed that money for agricultural purposes.

Mr. WINGO. Let me remind you—you are a lawyer—that buying supplies has been sustained, or anything that goes into the farm home. If a man has lost money living in the wheat belt or Cotton Belt by reason of this slump in the price and deflation, even though he does not segregate and say he has lost it directly on the cotton, the debt he owes must be for furniture, carpets, or the like for his home, and that is part of his farm operations, connected with living on the farm.

Mr. LOBBELL. I am going to say to you we have given it that construction; we have helped those fellows out of the wet. In your State and that of Mr. Steagall men held 50-cent cotton and gambled on it—it was a gamble—and held it when they could make plenty of money, until it went down to 20 and 15 cents; and I can not see that they have any right to claim that that is a part of the farming operation.

Mr. STEAGALL. You would not class as a gambler a farmer who happens to fail to sell his stable crop at the most advantageous figure, would you? You do not mean what you are saying?

Mr. LOBBELL. I would class as a gambler a farmer who has produced a stable crop which yields him a handsome and abnormal price, a price which nets him a handsome profit, and who holds that crop on borrowed money for a still more abnormal price. That man is a gambler. I do not mean that is applicable to cotton any more than to cattle or beef in my State.

Mr. WINGO. There is not any question in my mind as a lawyer, leaving out the question of whether or not he should be characterized as a gambler or improvident farmer, from the standpoint of the legal interpretation of the law, every wheat grower and every cattle grower and every cotton grower who is now in debt by reason of the farming operations, whether he acted unwisely in the time he took his products to market or not, he has lost that money and incurred that indebtedness in his farming operations and he is entitled to a loan.

Mr. LOBBELL. He lost that money by holding something after his farming operations were over.

Mr. WINGO. That may have been the occasion, but it accrued out of his farming operations, did it not?

Mr. LOBBELL. Yes.

Mr. WINGO. Judge, you had just as well cut out a, b, and c. Why? A man comes up and he says: "I want to get a loan for \$1,000 to buy a passenger car for my wife and grown daughter. They are not satisfied to run around in the Ford." You say: "No; that is not for either the purposes of a, b, or c. But I will tell you what you do. You go over here across the street and borrow the money from a bank for 90 days and buy that car, and then after you have made that debt under this item d that is an indebtedness; then we can make a loan to clean up the indebtedness."

Well, Judge, it is all right to cut out that farm loan at the time it is authorized, but I think you ought to say "Liquid indebtedness, mortgages, or any other purposes enumerated in a, b, and c." You are always going to be pretty liberal; there is no question but that you are going to throw this wide open, so a man will say, "I can not get this under a, b, and c, but if I will go around to the bank and borrow money to go to Arkansas and speculate in oil lands, and I think I can make a fortune out of it," and he loses it, you are going to have some farmers right down in Arkansas who would like to do that, and the local association send it up and it answers for the purpose of buying oil leases. The bank would say: "No; we can not make you a loan for that purpose." But if he goes to the bank and borrows money for 90 days, then he can turn right around and get his loan.

You ought not to lay down the bar on them.

Mr. STEAGALL. When you take that sort of a provision into the House or enact it into law you surrender the justification of the entire farm loan act and system and you put a weapon into the hands of every enemy of the system by which he can just beat you over the head.

Mr. WINGO. They will find some isolated case in Michigan or somewhere else and they will hammer at you.

Mr. STEAGALL. On the other hand, here is a farmer who has got in debt now and the sheriff is on his track. Should he not have the right to mortgage his farm under this system and save his farm?

Mr. WINGO. All right; if that is true, cut out a, b, c, and d.

Mr. LOBBELL. That is hardly a fair answer.

Mr. WINGO. And just simply say such loans can be made to a farmer for any purpose to keep him from being caught by the sheriff. That is the logic of it.

Mr. LOBBELL. Here is a loan that went over the desk in the last three weeks: An old man had signed a note for his son to help him out and get started, and he got launched at the wrong time, and the father had to pay the \$3,500 note. That was not for agricultural purposes; it was not for any purpose of his own. Would you deny him that credit?

Here is another still more difficult case: In the application for a loan of \$2,500, \$750 of which was a debt owed at the time for a doctor's bill and nurses' bill and hospital bill in the last illness of his wife and for a gravestone. Are you going to cut out that class of loans just because somebody may take advantage of it?

Mr. STEAGALL. I do not think that would be excluded now under the laws that exist. I am anxious to see this system take care of these things just as far as it can, and I am anxious to liberalize without injury to the system.

Mr. LOBBELL. You may be right. Our experience leads us to think otherwise. Mr. WINGO. You have put up a very fine illustration, but don't you think instead of throwing the bars down entirely that you might by some proper amendment simply add to a, b, and c or add to d "private persons equipment, reasonable operations, mortgage and farm and any outlay, indebtedness, and losses occasioned to his family obligations," or something like that. That is crudely expressed. Had you not better, instead of letting the bars down entirely, provide some lever by which you could use horse sense and say, "This is a burden that every farmer, even though he may stick closely to the operation of his farm—maybe a great many—will have to bear, such as long illness."

Mr. STEAGALL. Something could be put in about the support of the family and supplies which would cover everything you have talked about.

Mr. WINGO. I have urged against this system that the farmers already have too much credit, and you make it easy to let them go out and blow their money for something on the farm. The point I have in mind was that I do not want to have it said, "You provide that they may borrow money to speculate in stocks, real estate, cotton futures, wheat futures, oil leases," or anything else. I tell you, frankly, I do not think we ought to let down the bars to the extent you propose to do.

Mr. LOBBELL. Of course, your view prevails. We have scrutinized now over 300,000 of these applications. There is not much danger of abuse; but, of course, if it is the wisdom of Congress to leave the section as it is, it will be our pleasure to administer it that way. But it will deny a great many worthy farmers of the only possible means of restoration by doing it.

Mr. STRONG. I do not see why the farmer who gets in debt should not have an opportunity to borrow through this farm-loan system on his own farm the

money which will relieve him of debt and enable him to go ahead and carry on his farm operations.

Mr. STEAGALL. The thought underlying this act, as you know as well as I do, was that the Government would plant favors and the tax-exempt features and all those things to the end that the development of agriculture might be fostered, and that the loans obtained would be restricted to uses involving the legitimate expenses of agricultural pursuits and home development.

Mr. STRONG. I think the advantage derived of letting the farmer come into this system for legitimate indebtedness would far outweigh the exception that might arise by some farmer who had bought a limousine and got in debt foolishly or in buying oil leases, who might take advantage of this clause.

Mr. LOBBELL. The next section covers the increase of the loan limit.

Mr. STEVENSON. You spoke of that in your opening.

Mr. LOBBELL. No; that was Judge Towner.

Mr. STEVENSON. You may speak of it if you wish.

Mr. LOBBELL. An inquiry was made of Judge Towner by Mr. Stevenson on the question of land purchase, and I want to offer this answer in addition to what Judge Towner did, that the acquisition of the farm in Iowa at \$200 an acre by the fellow who has only got \$100 an acre is just as much to be desired as the acquisition of a farm anywhere. It ought not to be the purpose of the farm loan act to relegate the buyer of the farm—the young fellow who wants to get on the farm—to cheap and worthless land. You ought to develop that land buying in the better territory that is well within reason.

I would merely add that to what Judge Towner said on that subject.

Mr. STEVENSON. There is a section in there, Judge, you might want to call attention to, giving the board authority to increase the amount of the loan above \$25,000 on their approval.

Mr. LOBBELL. I think others will direct themselves more pointedly to that. It was thought by those who suggested it that there would be occasions and instances, I believe—and I want to serve this notice now—that the power will inhere in the Farm Loan Board in time of stress to say that we are going to quit making loans above \$10,000, if we have not got money enough to go around, and I would expect to administer the act that way. Just as we did with joint stocks when we said, "You can not make any loans above \$50,000." It will be recalled, perhaps, by some around the table that we did discontinue those then because there was not enough money to go around, and we said, "No; we do not want to make 1 man a loan of \$25,000 when there are 10 men calling for \$2,500 loans each."

Mr. STEAGALL. What is the condition, now, Judge Lobdell?

Mr. LOBBELL. The money market is easy. Farm-loan bonds are in demand, and we do not see any breakers ahead.

Mr. STEAGALL. What are you doing with reference to the demand for loans in the various bank districts?

Mr. LOBBELL. We are meeting all demands.

Mr. STEAGALL. Judge, probably you stated that fully enough in response to what Mr. Fenn said, but this amendment is not merely an amendment limiting the maximum amount to \$25,000, is it? Under that law which says you may authorize the making of such loan.

Mr. LOBBELL. It is not the same as would authorize you to go as far as you wanted up to that maximum.

Mr. STEAGALL. This would authorize you to make loans with a maximum limit as high as—I will read the language—might be "within the maximum allowed to joint-stock land banks in the same land-bank district."

Mr. LOBBELL. Yes.

Mr. STEAGALL. A proper construction of this law would hold that that had reference to the provisions of the original farm-loan act limiting the maximum amount to be made by joint-stock land banks and not to the limitation of \$50,000 which the board has set up as the maximum amount which might be loaned by a joint-stock land bank. Is not that correct?

Mr. LOBBELL. I would hardly think so, Mr. Steagall.

Mr. STEAGALL. You would not hold that this limitation would refer to a ruling of the board as distinguished from the specific provision of the law.

Mr. LOBBELL. There being no limitation in the law, I should think it would be construed that this enactment took cognizance of the limitation imposed by the board; the law itself imposing no maximum on the joint-stock land banks, there would not be any maximum.

Mr. STEAGALL. I was falling into error there, because I was forgetting for the moment that there is in the original law no maximum imposed on the joint-stock land bank. So that the only limitation as to the actual amount is the limitation fixed by the board, which is \$30,000.

Mr. LOBBELL. Yes.

Mr. STEAGALL. And that being the case, where would we stand? The general rule would be you could not make loans in excess of \$25,000. But the board, if it changed the ruling by which the maximum of \$50,000 is fixed as a maximum amount that may be owed to joint-stock land banks, would automatically raise the amount which might be loaned under the Federal land-bank system.

Mr. LOBBELL. Yes.

Mr. STEAGALL. This would also be true, would it not, that if the Federal Farm Loan Board saw fit to remove the limitations as to the maximum amounts to be loaned by the joint-stock land banks, it would necessarily follow that the Federal land banks then could loan money without any restriction whatever as to the amount?

Mr. LOBBELL. With the approval of the board; yes; unquestionably.

Mr. STEAGALL. Judge Lobdell, do you think it is wise to take off that limitation to that extent? I have a great deal of confidence in this present board, and I am sure I would in any board that is likely to be appointed. But I would hate to see this limitation taken off, and then the board take off all the limitations from the joint-stock land banks, and then raise the maximum amount for the Federal land banks, and then remove the maximum amount for the joint-stock land banks.

How would we answer the enemies of the farm-loan system who are complaining about the Government's offering tax-exempt securities, when the provisions are written so that a man could borrow a half million dollars if he had a farm big enough and he become the recipient of the Government favors embodied in the original farm loan act?

Mr. LOBBELL. It is the theory of those whose idea this is that any loan in excess of \$25,000 would have to come to the Farm Loan Board before it would be made.

Mr. STEAGALL. But we would be put absolutely in the hands of the board, and if they changed their minds and took off the limitation, then there would not be any limit in the law.

Mr. STEVENSON. Judge, is it not all in the hands of the law?

Mr. LOBBELL. No.

Mr. STRONG. It seems to me we ought to give the board the same privileges in connection with the farm-loan banks that we did with the joint-stock land banks.

Mr. STEAGALL. I voted against that thing allowing the joint-stock land banks to come in there, but I can not change this at this late date. I can see the necessity for raising the maximum limit, because it is not so necessary in my section of the country, although I am not sure that it should not be done there. I can understand how the maximum limit of \$10,000 means now a different limitation from what it meant when the farm loan act was passed. I recognize that; and then I recognize also the necessity for attempting to fix the system so as to endeavor to meet the requirements of every section of the country, and I recognize the force of your suggestion that it is just as important to aid in the acquirement of homes in sections of the country where lands are rich and the price high as it is in sections where people are poor and lands are poor and I am not saying that I am not willing to follow that policy to some extent? But to let down the bars, I do not think I can ever agree to that.

Mr. LOBBELL. The theory was to more nearly equalize the privileges of the two banking systems. It could only be done with the approval of the board, and I say to you frankly that if there were no joint-stock land banks in existence I would not be very enthusiastic about going as high as \$25,000.

Mr. STEAGALL. What is to prevent us passing a law limiting that? If you have got an evil and cure it by eliminating or creating another evil, the best thing would be to eliminate it, would it not?

Mr. LOBBELL. That is up to the Congress.

Mr. STRONG. We ought to give the farm-loan banks as nearly equal privileges as possible with the joint-stock banks.

Mr. LOBBELL. That is the theory of that suggestion.

Mr. STEVENSON. How about section 15? "Such local agents shall serve at the pleasure of the bank and shall give surety bond for the faithful perform-

ance of their duties in such sum as the Federal Farm Loan Board shall prescribe and may collect from each borrower at the time the loan is closed such compensation as the Federal Farm Loan Board may approve, not exceeding 1 per cent of the amount of the loan made."

Mr. LOBBELL. Yes; that is the amount which the secretary-treasurer—

Mr. STRONG (interposing). That is the present law?

Mr. LOBBELL. That is not the purpose of the section.

Mr. STEAGALL. Section 6 rewrites section 15 of the act, so as to authorize the loans to be made through agents. When this original act was here I fought about as hard on that one provision as any one question that arose. I knew that in my section of the country people were going to be slow in forming associations and going into the system, and they have been. We tried on the floor to incorporate some provision of that kind, and we finally got one almost meaningless, but they voted that down.

We encountered all sorts of opposition in the House. That is what is going to confront this committee when they come to the floor again with that proposition. I think the necessity for this provision was greater during the period that we were attempting to inaugurate this system than it is now, since the people have become somewhat accustomed to it and have grown somewhat into the custom of associations. And yet I am not afraid to authorize the board to establish rules for making loans through agents. I will stand by my guns on that proposition so far as I am concerned. I am willing to undertake it.

Mr. STRONG. Mr. Steagall, at the time this bill was passed it was rather an innovation for the purpose of helping farmers get loans, and a good many people, not understanding the needs of the farmers and not having given the study of their needs very much consideration, opposed the bill. But do you not think there is throughout the country and in Congress a disposition to try to help agriculture to such an extent that there will not be that opposition to the bill at this time that there was when the bill was passed?

Mr. STEAGALL. I am not sure that some of the objections of those not altogether in sympathy with the bill were not based on sound principles, so far as that is concerned; and I do not know that I would be prepared to just say that I would stand back of every proposition that can be suggested by some Congressmen which would temporarily help agriculture. The older I get and the more I see of the farm-loan system the more deeply I am impressed with its importance and likewise the importance of preserving it against any unwise amendments or inroads that will open up an opportunity for criticism on the part of the enemies of the system.

Mr. STRONG. Mr. Steagall, that was not my suggestion. My suggestion was that the feeling of the country and the Congress is a little more friendly toward agricultural legislation than it was, and I do not think that any wise amendment to the farm loan act would now be criticized on the floor of the House, and I believe that this appointment of agents is one of the most necessary things to the farm-loan system if you are going to cut out the red tape and get the money to the farmer quickly.

Mr. STEAGALL. You can not cut out all the red tape, and getting money has never been a simple thing.

Mr. STRONG. Here is the situation: A farmer wants to borrow in a county I have in mind in my district, for instance. The secretary-treasurer is a very popular and lovable man in that county, but he is the president of the biggest bank and he has other money to loan; as a result, the farm-loan system is not used very much in that county, while over in another county, Washington, where I have my own farm and have a loan under this system, that farm-loan association is working and the farmers are being served. When we find that the farm-loan association is not functioning and not serving the farmers for any reason, should not the farm-loan bank have a right to appoint in that vicinity an agent properly bonded who would make those loans and get the money to the farmer and accomplish the purpose of the act?

Mr. STEAGALL. I stated in the beginning that I supported in this committee and on the floor of the House the proposition to let the Farm Loan Board authorize loans to be made to agencies, and I will do that again, although the necessity for it does not exist now as it did then. I thought the authority should be given; I think the policy of the board—and I am sure it would be—should be to lean as far as it could reasonably to the efforts to develop the cooperative features of the farm-loan system. But what I was calling attention

to a moment ago was the fight that we encountered in the House when we attempted to put over a similar provision to this in the original bill, and I am merely suggesting that because it is well anticipated and known in advance that you are going to encounter that controversy whenever we get to a discussion of this bill.

Mr. STRONG. Let us hear Mr. Lobdell upon the need of that section.

Mr. LOBBELL. The suggestion is founded wholly on experience and is recommended unreservedly. There are communities where the joint stock land bank is taking up the business, because you do not get 10 farmers together, enough to organize that is, in good territory.

In Iowa, to illustrate, the joint stock land banks are getting more loans under \$10,000 than the Federal land bank is getting in the State. They are getting the majority of the business that ought to go to the Federal land banks, and which would be profitable business to help bring up dividends or bring down rates.

We have cases down in this section, to illustrate—in New York State—where a group of old families, sons and sons-in-law, get together and organize an association, and refuse to let the bars down and let other farmers in. There is not anybody else getting into that association; they can not get service.

Then we have the case of the man who has control of the association and uses up all the dividends, and you can not oust him, and you have either got to let the people go in and continue to be robbed or establish an agency. Those are the three conditions, and those are the only conditions under which it would be used.

Mr. STEAGALL. I am just calling attention to what is involved in it.

(Thereupon, at 4.45 o'clock p. m. the committee adjourned to meet Thursday, January 4, 1923, at 10.30 o'clock a. m.)

COMMITTEE ON BANKING AND CURRENCY.

HOUSE OF REPRESENTATIVES.

Thursday, January 4, 1923.

The committee met at 10.30 o'clock a. m., pursuant to adjournment, Hon. Porter H. Dale presiding.

Mr. DALE. The committee will be in order. We have met for the further consideration of H. R. 13125, and Representative McLaughlin, of Nebraska, desires to make a statement. He is in somewhat of a hurry, and we will listen to him first.

STATEMENT OF HON. MELVIN O. McLAUGHLIN, MEMBER OF CONGRESS FROM THE STATE OF NEBRASKA.

Mr. McLAUGHLIN. Mr. Chairman and gentlemen of the committee, I have appeared a time or two before your committee, as some of you know, especially in the interest of one provision of the bill that you are considering, namely, the increase of the maximum loan under the Federal farm loan act from \$10,000 to \$25,000.

I have been greatly interested in that feature during the four years I have been in Congress, and it seems to me that it is absolutely vital to the proper and adequate functioning of this law and necessary to take care of the borrowing needs of the farmers. The need is greater, if possible, now than it has been heretofore; and inasmuch as this provision that I have been so strongly in favor of has been gaining support throughout the country for many months, and I believe has been gaining support in Congress, I think it is important that whatever legislation of this kind is adopted be reported out as soon as possible and enacted into law as quickly as possible, in order that the loans that will be renewed and the new loans negotiated by the agriculturists may receive the benefit of the amendment to the law.

As you know, most of the renewal loans are taken care of around the 1st of March and the most of the new loans are negotiated at that time. Since this legislation has the approval of the administration and has the approval of many of the agricultural organizations, and inasmuch as I believe Congress is anxious to do what is right and proper in the way of amending this law, I simply want to urge expedition. I hope the measure can be considered as rapidly as possible, taking into account care, of course.

I have not analyzed carefully some of the provisions of the Strong measure, but I am deeply interested in that section which proposes to increase the loan limit from \$10,000 to \$25,000.

Mr. STEVENSON. Will the gentleman permit a question there?

Mr. McLAUGHLIN. Yes.

Mr. STEVENSON. What is the gentleman's idea as to the reason for and the justification of the farm loan act; that is, what was it passed for?

Mr. McLAUGHLIN. I will say to the gentleman that I have heard certain gentlemen argue that it was passed for the purpose of taking care of the needs of the small borrower, and, if possible, to assist the landless man to acquire land; I have heard gentlemen say that who were here at that time. I was not here then, but I want to say to the gentleman that experience in the operation of the law has shown very clearly to a good many men who have been watching the needs of the agriculturists and the operation of the law, that the act can go very much further than that; and experience shows that a man who has a farm of greater value, needing a loan of \$15,000, \$20,000, or \$25,000, is at times in just as dire need of an amortized loan at a low rate of interest as the man who only needs \$5,000 to \$10,000.

Mr. STEVENSON. My idea about the act was that we were endeavoring by legislation to build up a rural population that should own its own land, and I think that was the conception of Congress at the time; and there would be very little justification for this measure if it was just merely a farm loan measure. The Government is interested in conserving the rural population and one that owns its own land, because those are the people who make good citizens and who are going to constitute and should constitute the most of the population.

Now a man who has a \$20,000 farm is about the biggest man that comes in that class; that is, he can get \$10,000 if he has a farm worth \$20,000; but the fellow who wants \$15,000 and has \$30,000 capital in his land can not get what he wants; and we are getting out of that theory. The whole basis of the act, it seems to me, when we begin to go on up to \$25,000—that is, you take a man who has \$50,000 worth of land—if he is all right he ought to be able to finance himself.

Mr. McLAUGHLIN. I will say to the gentleman that in the great prosperous agricultural districts of the country where land is of much higher value than it is in other places and where farm units are much larger than in other places, that there is just as great need in those sections for a person who wants to buy a \$50,000 farm and who has \$25,000 to get a long-time loan on it as there is a man who has \$10,000 who wants to buy \$20,000 farm and wants to raise that amount.

Mr. STEVENSON. I am not discussing the need; I am discussing the ability to finance himself without getting behind a Government institution; that is what I am talking about.

Mr. McLAUGHLIN. The gentleman must take cognizance of the fact that if a man in these sections I am speaking of where land is high, is cut off from the same avenue of credit as the smaller man and he has only one avenue to which to go, namely, to private lenders, who know, if they want to take advantage of him, that he has not access to any other place, and that they can place a rate of interest as high as they please and charge as much interest as they please. It puts him at a decided disadvantage.

Mr. WINGO. My attention has been diverted, and I have not heard all of the statement. You have said that the only avenue for handling that was through private lenders. We are referring to the man who has a farm plant and who wants more than \$10,000 loan. Are you right sure that the private lender is the only one to whom he can go to now?

Mr. McLAUGHLIN. I know about the joint stock land banks.

Mr. WINGO. I am not trying to get into a controversy. I want to know your opinion. What we want is the practical working. Now, why, from a practical standpoint, can not a man in your district get a \$15,000 amortized loan from the joint stock land banks?

Mr. McLAUGHLIN. He can, but that is an institution operated for private gain, the same as a private lender.

Mr. WINGO. He can get that on terms that would be practically equivalent to what he would get if this amendment passes, can he not?

Mr. McLAUGHLIN. I do not think he can, exactly.

Mr. WINGO. Will you please explain to the committee what you understand is the difference? Let us see where the differences are and what the real,

practical necessity is; that is what we want to know. Why does your farmer say that, the rate of interest being equal and the amortization feature being the same, that his salvation depends on getting a loan from a Federal land bank instead of from the joint-stock land bank? Where is the practical benefit and the distinction?

Mr. McLAUGHLIN. I will say to the gentleman that I do not care to go into that phase of it myself. There are gentlemen here who will answer those questions.

Mr. WINGO. Oh, no; they can not answer for you. What do your farmers say to you? Do your farmers tell you that they do not want to go into the joint-stock land bank even though they can get an amortized loan at a low rate of interest, but that they insist that you get for them the privilege of getting the same kind of a loan on the same plan from a Federal land bank, another branch of bank that is operated under the same official bureau here in Washington? Is that what your farmers contend? If so, what reasons do they give you to pass on to the committee? I want the viewpoint of your farmers, as presented to you on that question.

Mr. McLAUGHLIN. There are many farmers who have petitioned for this amendment and they believe that it would give them two avenues of approach, whereas they now only have one; and the rate of interest, unless I am greatly misinformed, if they have this privilege, in all probability will be lower than that now charged by the joint-stock land bank.

Mr. WINGO. Is the inducement held out to the farmer of your district that if this kind of an amendment is made that he will get a lower rate of interest than is at present provided under the joint-stock land bank?

Mr. McLAUGHLIN. I can not say that; it is my conviction, however, he will be.

Mr. WINGO. I just want to get your viewpoint. I am not converting you. You said that that would give him two avenues instead of one. Does your farmer want two opportunities for credit upon reasonable terms, or does he want one avenue? Would he be satisfied if he can get his loan amortized at a low rate of interest? Will that satisfy your farmer if he can get relief from short-term loans which we all agree is a millstone, because it falls due every three or five years? Is he attracted by the amortization feature and the low rate of interest, and does he insist that he wants two different plans by which he can get the same benefits?

Mr. McLAUGHLIN. I think the gentleman knows that it is greatly to the advantage of any borrower to have more than one avenue of approach; that is, more than one place to go.

Mr. WINGO. Theoretically, that is true. But if I want a steak and I am assured that I can get that steak for a reasonable price from one marketman, no particular benefit comes to me from having another marketman unless I can get a better steak or a lower price.

What I want to get at is this, my friend: Originally I opposed the joint-stock land banks. I did not see any justification for a tax-exempt Federal paternalistic agency being granted to profit-making institutions. My theory of the original act was that there was a group of small borrowers scattered over the country that by reason of their smallness or isolation or undeveloped territory were not able to market their small securities, or, if they did market them, they had to pay such an enormous rate of interest and such commissions that it was unbearable. Therefore no private enterprise or private agency was furnishing him a market for his credit upon reasonable and bearable terms, and it became the duty of the Congress, on account of the great public interest, to set up that agency.

Now, I would like to know your viewpoint as to the justification for providing the loan agency for a man who has a farm plant upon which he is entitled to a \$25,000 loan. Just what is the argument in your mind on that?

Mr. Strong. Might it not be for the same reason that the Government sets up other financial institutions for taking care of other financial interests?

Mr. WINGO. I happen to belong to that school which is opposed to all these governmental subsidies, but I am in favor of giving to the farmer equal treatment. That is all my farmers are demanding. They say, "Give us a loan agency that will be equal and fair and reasonable." But I would like to have an argument that will enable me to help my political friends who are big plantation owners, who ask for a public agency that will carry loans for them that they now get from private agencies. You are getting money out there in the Western States from private loan companies at 6 per cent, are you not?

Mr. McLAUGHLIN. I think so, now.

Mr. STRONG. Since this system is working they are, but they were not getting money at that rate before the farm-loan system began to function.

Mr. WINGO. But we are talking about changing the present system. You suggested awhile ago that if we would put this amendment on and take the bridle off on the Federal land banks, and have two agencies competing with the private loan companies, that the interest rate is apt to be lower still.

Mr. McLAUGHLIN. It may be; and then it is unfair to the Federal farm-loan system to bridle that and have no limitation on the joint-stock land banks as to their loans.

And then, with reference to the question as to the justification of the \$25,000 loan to a man, I will say again simply what I endeavored to say to my colleague, Mr. Stevenson, here: Let us take two examples. Here is a man in a place where land is worth \$40, \$50, or \$75 an acre. He has a farm there that is worth, say \$16,000; he has \$8,000, and he wants to put that in. He has been a renter and he wants to buy land on which to make his home; he wants to borrow \$8,000. He can get that under the act and use it to buy his home, and eventually pay out on it.

In my own country, in eastern Nebraska, in Iowa, or eastern Kansas, where Mr. Strong is, here is another man, where farms average around \$200 an acre, more or less, and we will say that he has \$25,000, and he wants to buy a farm there in that country, and it is going to cost him \$50,000. He is in just as much need of the same kind of a loan as the man who only had his \$8,000 or \$10,000.

Mr. STRONG. Or if he owns the land and is carrying that much indebtedness on it?

Mr. McLAUGHLIN. Absolutely.

Mr. WINGO. You really think now that the object and effect of this amendment will be to help the landless man get a home?

Mr. McLAUGHLIN. I certainly do.

Mr. WINGO. And do you think that with the present condition of agriculture, with all that we do for it, including those young men who have no farms, are going to be able to get farms by going and buying these expensive plants?

Mr. McLAUGHLIN. Some of them will, certainly.

Mr. WINGO. You think that is a possibility out there?

Mr. McLAUGHLIN. I certainly do.

Mr. WINGO. Then the conditions are better in your State than in anybody else's where a landless man can hope to do that. He is the man I am interested in. I am not caring so much about the fellow who has a big plant worth \$50,000 to \$100,000, who simply wants from his selfish standpoint the particular benefits that come from the Government agency as distinguished from the private-loan agencies now lending the money at 6 per cent. I am interested in the poor devil who wants to get a farm home, if he can not do it under our present existing agency. It is the fellow at the bottom that I want to help. I think we ought first to help those little fellows.

Mr. STRONG. But there is the man who started at the bottom and who had a farm and has increased it and now has maybe 200 or 250 acres; he has several boys that he wants eventually to start in the farming business, and he is in debt \$25,000 or \$20,000 or \$15,000. He has the need of this system so he can obtain an amortized loan and eventually pay it out, just as much as the fellow who has two or three hundred acres and who only borrows \$9,000.

Mr. WINGO. You are still talking about the fellow with the expensive plant. How about the tenants?

Mr. STRONG. There is only one suggestion for that line of argument, and that is for the fellow who has \$15,000 debt on his farm to sell it and go to another place where land is cheap and he can get land with a loan of less than \$10,000.

Mr. STEVENSON. How about the joint-stock land bank?

Mr. STRONG. I am not overly enthusiastic about the joint-stock land bank, and neither are you and neither is Mr. Wingo. They are private institutions, being financed through money borrowed by tax-free bonds, and I thought it was a mistake in the start, and I think the longer they continue the greater strength they are going to have.

Mr. WINGO. I have no desire to engage in a controversy. A gentleman over here suggests that that amendment will help that poor fellow. You suggest that the larger fellow is entitled to some relief. Which one is it going to benefit?

Mr. STRONG. Mr. Wingo, I am never against the poor fellow. You will probably remember that two or three years ago I helped to defeat an amendment on the floor of the House to help raise farm loans from \$10,000 to \$25,000. One of my good friends from Texas was very much in favor of it, as was one of the members of my own delegation. But I helped defeat that amendment upon the ground that the farm-loan system at that time was not able to get money enough to serve all the people who wanted money, and I thought the little fellow should be taken care of first. But now that the system is functioning so well that it can supply all demands, and last year loaned \$230,000,000, it does seem to me that we ought to also take care of the farmer who has got the expensive or large farm and is producing food for the country, even though he happens to need \$15,000 or \$25,000 instead of \$8,000, \$9,000, or \$10,000. I think he should have an opportunity to go to the farm-loan bank and get this money.

Mr. WINGO. The thing I am trying to get at is, where is the objection to going to the joint-stock land bank if it can make an amortized loan?

Mr. STRONG. For one thing some of the joint-stock land banks in the country are forcing the farmers to buy in their bank stock and some of them are getting a little heavier commission on the side where they can. I know of places in my own district where they were offered loans and the loan was approved, and then they said if the borrower did not pay so and so they could not get the loan.

Mr. WINGO. You do not mean to suggest that anyone connected with the joint-stock land banks is demanding commissions in addition to the interest?

Mr. STRONG. I certainly do, and they are forcing the sale of stock on their borrowers.

Mr. WINGO. Have you laid that before the Farm Loan Board and the Department of Justice?

Mr. STRONG. Not before the Department of Justice, but I have before the Farm Loan Board, and they know it and they are trying to stop it, and they have issued orders against it. But, suppose you want a loan of \$25,000, and you can not get it any place except the joint-stock land banks and the agent says to you, well, "You will have to take some stock."

Mr. WINGO. That is in violation of law.

Mr. STRONG. What are you going to do—either do so to get the \$25,000 or go broke.

Mr. STEVENSON. Does he not have to take stock if he gets it from the land bank?

Mr. STRONG. Yes, he does.

Mr. STEVENSON. He has to take stock, but he does not have to take any more than when he gets it from the joint stock land bank, does he?

Mr. STRONG. No; the only difference is one plan is the plan set up by law in which he goes in with his eyes open and the other he does not know about until he comes to get the money. I think the joint stock land banks are taking advantage of the situation, and so do you.

Mr. STEVENSON. Let me suggest a difference between the two: In one instance the man who borrows \$10,000 takes 5 per cent of it in stock in the loan association to which he belongs, and it takes stock in the Federal land bank; in the other instance, the man takes the stock directly in the joint stock land banks. Now, here comes the difference: The Federal land banks have declared in the last year considerable dividends, that is, declared in favor of the loan association, and the loan association has absorbed 50 per cent of it. I say the joint stock land bank declares a dividend of 9 per cent. And it is declared to the fellow who owns the stock. I would rather have my loan in the joint stock land bank for that reason.

Mr. WINGO. I am interested in this charge that there are being unlawful rates charged by the agents of the joint stock land banks.

Mr. STRONG. They are even being charged by the farm loan associations.

Mr. WINGO. You appreciate the weight of your statement?

Mr. STRONG. Certainly.

Mr. WINGO. Do you tell me that the board and the Department of Justice are permitting that?

Mr. STRONG. I don't know whether they know it.

Mr. WINGO. If they know it, they permit it.

Mr. STRONG. I do not know whether the Department of Justice knows it. I have not called it to their attention. But Judge Lobdell in his statement at one

time when you were present stated that they were collecting commissions to which they are not entitled.

Mr. WINGO. I was not present. But I know this much, if a conspiracy is entered into to exact unlawful commissions—

Mr. SMOCK (interposing). It is not a conspiracy.

Mr. WINGO. It is a concerted movement.

Mr. SMOCK. Oh, no; I did not say it was; I say they are doing it.

Mr. MacGREGOR. To what question are we addressing ourselves?

Mr. WINGO. We were getting at the relative merits of the two methods, and he was offering that suggestion.

Mr. DALE. Have you completed your statement, Mr. McLaughlin?

Mr. McLAUGHLIN. I will complete my statement by saying further to my colleague, Mr. WINGO, with reference to his question as to keeping men on the land and enabling them to secure farms, that I believe there are gentlemen here from my State who know the situation in eastern Nebraska and Iowa and the adjoining States, who can, if you will direct your questions to them, give you concrete instance after concrete instance where such men have applied for loans and could buy land if they had the privilege.

Mr. WINGO. The joint-stock land banks?

Mr. McLAUGHLIN. From the farm loan.

Mr. WINGO. Do not misunderstand me. I am probably going along with you gentlemen. But I want to know why I am doing it; I want to get some reason for it.

Mr. DALE. The committee will now be pleased to hear Mr. Hull, of Iowa.

STATEMENT OF HON. HARRY E. HULL, MEMBER OF CONGRESS FROM THE STATE OF IOWA.

Mr. HULL. Mr. Chairman and gentlemen of the committee, I will try to be very brief. And I want to urge this committee to take action in regard to reporting out this bill increasing the amount that the farm bank can loan from \$10,000 to \$25,000.

I do not know that it is necessary to go into the merits of the case. However, I will say this: In my country, which is probably one of the richest agricultural districts in the United States, the average farm is worth from \$40,000 upwards and may easily be worth \$100,000. You take 320 acres of land in any county that I represent, with proper buildings upon it, and it is worth at least \$100,000 and sometimes more than that. Whether a man wants to borrow money to go onto a farm or whether he wants to continue in farming is not, to my notion, the question, much as the ability of the man to obtain a loan.

There are all the while poor men practically who are trying to go into farming in my country. If they are going to succeed, they must be able to borrow money at the lowest rate possible. As to whether they should borrow of a farm-loan or a joint-stock bank is immaterial.

When I was out in my district my attention was called to the fact that there was no joint-stock bank near a certain county. The farmers are not as well posted about these things as some Members of Congress, although some Members of Congress are not as well posted as they should be. I myself did not realize the need of having all the agencies that we require to accommodate these farmers.

When I investigated the matter I found this: That there was not any joint-stock land bank in the eastern part of Iowa; that they had to go some distance to find an agency even of the joint-stock bank. I think that condition has been improved some recently. There were, however, farm-loan agencies nearer at hand. But in this case the man wanted a loan of \$12,000. It was a perfectly good loan, because he had probably \$40,000 or \$50,000 invested, and he had a loan at that time from a bank; but the bank had notified him that he would have to take the loan up—I think very unjustly, but that is not the question—because they were getting a fair rate of interest. But the poor fellow was very much worried, because he could not find any place to borrow \$12,000 on a \$40,000 or \$50,000 farm. The trouble was that the limit was \$10,000.

There were other cases where men had a little money and they were trying to go into farming, and the same thing arose—they could not borrow what is a reasonable loan value on the farm.

You can all readily imagine that a man buying a farm worth, say, \$40,000 can not afford to put a first mortgage on it for \$10,000 if he is going to finance himself, because the minute he puts on the first mortgage then there is a

question in regard to the value; and I do not see any harm at all in increasing the amount. The matter is subject to the appraisal of the banks; and I will say this, that they are very conservative in the State of Iowa in all their loans. There is not any skyrocketing going on in any of these farm-loan banks.

Mr. DALE. May I ask you a question, Mr. Hull?

Mr. HULL. Yes; certainly.

Mr. DALE. You speak of putting a first mortgage of \$10,000 on. That suggests this inquiry to my mind: Is it a common practice in your State to put on second mortgages?

Mr. HULL. Oh, it depends upon what you mean by the words "common practice." I presume some persons would say it was and some persons would say it was not. I do not think it is myself.

Mr. DALE. What I was getting at was whether a man having put a \$10,000 loan on his farm, worth \$40,000 or \$50,000, would have difficulty placing a second mortgage.

Mr. HULL. Certainly he would. He would have to put it on at a higher rate of interest. When he has a first mortgage, the minute he puts on a second mortgage he has to pay a higher rate of interest and he is subject to the loan sharks; that is the trouble.

Mr. DALE. What do you mean by "loan shark"?

Mr. HULL. A man who takes a large commission for making the loan.

Mr. DALE. We do not allow him to do that in my country.

Mr. HULL. They are not supposed to do it out in the State of Iowa, but they do work that feature of it. There is no question about it.

Mr. FENN. Do they do that in the land banks?

Mr. HULL. No. I am not saying a word about the land banks. The man who does that has not any money himself, but he is an agent. And the fellow says: "I have got to have some money." The agent says: "I can get the money, but it will take some time."

Mr. FENN. That is a private individual?

Mr. HULL. It may not be a bank; he may be a broker.

Mr. WINGO. There is that commission in Iowa. We have had testimony on it. Mr. HULL. It is something that the man can get and that he has heart enough to take.

Mr. WINGO. What does he generally have heart to take out there in your district?

Mr. HULL. Some have no limit.

Mr. WINGO. What are the actual facts, Mr. Hull. That is what I want to get at. Do you know what is specifically charged in the way of commissions upon loans in your district and, if so, what is the amount in percentage?

Mr. HULL. The ordinary commission is one-half of 1 per cent, but that is where you are doing a legitimate business—I think that is right.

Mr. DALE. Is that on first mortgages, Mr. Hull?

Mr. WINGO (interposing). You understand what we are getting at?

Mr. HULL. I never heard of an instance like they cite here of any agent of a joint bank or any farm bank taking any commission at all; that is all news to me; I do not think that is done in my country at all.

Mr. WINGO. Why do your farmers refuse to go to the joint stock land banks to get these loans?

Mr. HULL. They do not refuse. They are very glad to go. But there are some places, as I say, that they have not any joint stock bank and they do not know about it; in fact, they would have to travel quite a ways.

Mr. WINGO. But would they have to travel any farther than to a land bank? Are there not more joint stock land banks and are they not closer to your farmers than the land bank?

Mr. HULL. No.

Mr. WINGO. Where is the bank located—the Federal land bank?

Mr. HULL. I think in every county they have agencies by which they can borrow—

Mr. WINGO (interposing). You do not understand my question. Where is the Federal land bank? There are 12. What district is Iowa in?

Mr. HULL. I think it is the Omaha district.

Mr. WINGO. Where is the joint stock land bank?

Mr. HULL. The nearest is at Des Moines, I think. There have been some instituted there recently, and I think there is a branch of one from Chicago. But there does not any farmer go to Omaha, and practically no farmer goes

to Des Moines. What they have are agencies through which they can make these loans.

Mr. WINGO. Do not your joint stock land banks have agencies just exactly like your land banks?

Mr. HULL. I do not know. There are not as many, that is what I want to call your attention to; and then, of course, a good many farmers prefer to borrow of the farm bank.

Mr. WINGO. Why? For what reasons? What practical reasons do they give?

Mr. HULL. They think that they are better taken care of.

Mr. WINGO. In what way?

Mr. HULL. That may be wrong, but they have that idea.

Mr. WINGO. Do they think they get a different amortization plan? Do they think they get a different rate of interest?

Mr. HULL. I presume they do. I suppose that a whole lot of this is psychological. Our people do not know all about all these different ways of borrowing, and it is psychological.

Mr. WINGO. I appreciate that.

Mr. HULL. I found that out in two or three cases. Farmers came to me and they said they wanted to borrow of the farm bank, the Government bank; and they wanted to know how to do it, and I told them.

Mr. WINGO. You take the position, then, that the original purpose for which the joint-stock land banks were created—that is, to take care of a larger loan, has failed on account of the psychology of the situation?

Mr. HULL. Oh, I do not say it had failed; I say it is capable of being improved.

Mr. WINGO. I mean, it does not work to the full extent you think it ought to in your district because of the psychology of the situation among your farmers?

Mr. HULL. I simply say this: That experience has shown us that we can improve the system. It has worked wonderfully, I think, and been of great benefit. But it is like everything else, when you get a thing to work you can still improve it, and it seems to me that if there is any improvement that we can make then we ought to make it.

Mr. WINGO. I agree with you.

Mr. HULL. I presume this is true, that there will not be so very much use made of this, but I do think if you will pass this bill by the 1st of February, and have it signed and made into law, that it will have a wonderful effect all over the State of Iowa and over the entire country in reducing or making it a little easier for farmers to finance themselves—farmers who are in now and farmers who are trying to be farmers.

Mr. WINGO. You think, then, that they would not avail themselves so much of this additional maximum, but that that could be used as a club to force more reasonable terms on private agencies?

Mr. HULL. I do not say, "As a club."

Mr. WINGO. I am not objecting to that. I think that might be a wise thing.

Mr. HULL. I say that would have a wonderful effect just the same as the War Finance Corporation. You understand that when the War Finance Corporation gave notice that they had a half billion dollars which they could loan to the farmers of this country that had a wonderful effect—largely psychological, but it was an effect that was very important and very essential.

Mr. WINGO. I want to go deeper than that psychology.

Mr. HULL. Maybe the word is wrong.

Mr. WINGO. I want to set up a system in a practical way which will give real benefit to the farmers in a sound way, and I want the interest rate, terms, and business reasons to govern us.

Mr. HULL. Well, if you will give this law to the country, as I think it should be given, I think you will improve on the present arrangement; you will not make it perfect, but you will find other improvements coming along.

Mr. WINGO. Certainly.

Mr. HULL. But it will be an improvement, and it is an improvement that our farmers are asking for. I do not say that they are crazy about it, for I presume they will get along, but it will help, and anything that will help the farming industry at the present time ought to receive the approval of every Member of Congress.

Mr. WINGO. Do you approve the permanent organization plan set out here in the Strong bill?

Mr. HULL. I have not gone into the details of that; I am simply discussing the loan features.

Mr. WINGO. What do you think ought to be the maximum?

Mr. HULL. Well, at present I think it should be \$25,000.

Mr. WINGO. At present?

Mr. HULL. Yes.

Mr. WINGO. Are you in favor of the provision which will permit them to make it larger?

Mr. HULL. I will not say right off, without thinking about it, that I would not favor that.

Mr. WINGO. Do you think we ought to limit it specifically to the \$25,000? You understand under the bill it might be \$100,000, if the borrower wants that.

Mr. STRONG. No; it might not be \$100,000; that is hardly a fair statement.

Mr. HULL. I do not want to get into controversy.

Mr. STRONG. It might be the amount the joint-stock banks could loan.

Mr. WINGO. The gentleman knows that we have no limit except the regulations.

Mr. STRONG. Yes; but they are regulated.

Mr. WINGO. And the day after you pass this it is possible for the Farm Loan Board to say, "We will change that regulation from \$50,000 to \$100,000."

Mr. STRONG. Do you not think somebody ought to have the power to change the regulation if it becomes necessary?

Mr. WINGO. I think Congress ought to have the power to change regulations, not boards.

Mr. STRONG. It might be a difficult thing if we could get it through, but it is so hard to get it through.

Mr. WINGO. I will vote for the \$25,000 provision sooner than for an unlimited provision.

Mr. HULL. I am inclined to think that Congress, Mr. Wingo, is right; that there ought to be a limit and that Congress ought to establish that limit; and then after it comes along and we find it ought to be increased, Congress is always in session.

Mr. WINGO. You are correct about that, and the truth is it ought to be \$25,000 by statute and not regulation. Congress ought to legislate and fix the limit.

Congress will be in session, and instead of the board saying it ought to be \$100,000 Congress ought to say it should be \$25,000.

Mr. HULL. It occurs that way to me, I will say that frankly.

Mr. BLACK. Do you not think that the \$25,000 loan limit would permit practically all farm loans in Iowa to come into the system ultimately if they should choose to take advantage of it? In other words, are there many farm loans, in your opinion, in Iowa that would exceed \$25,000?

Mr. HULL. No; there are not at the present time.

Mr. BLACK. And the thought I had, Mr. Hull, on this whole bill is that the tax-exempt feature was the one important part of the law, and that if we should amend it to the extent that is suggested in this bill it would mean that ultimately we will extend the tax-exempt feature to practically all farm loans in the United States.

Mr. WINGO. Do you favor that, Mr. Hull?

Mr. HULL. Well, that is another proposition that I would like to study.

Mr. WINGO. No; it is specifically interwoven; it is one of the questions that is bothering members of this committee. It is a live question. We are voting on the constitutional amendment in the House now, and for that reason I will state that is a very live question in the minds of this committee. We would like to have the benefit of your judgment.

Mr. HULL. I will say this, that I am in favor of the Green resolution; and, of course, that is another proposition.

Mr. WINGO. I have discovered it is another proposition. I want to know if you are in favor of tax-exemptions as applied to all farm loans?

Mr. HULL. Well, I am inclined to say that I am. But, of course, it might be that something would change my mind on that. I have changed my mind on some things. But right at the present I would favor tax-exemption for farm loans.

Mr. DALE. I would like to ask a question there. There could not be any taxing exemption if the Green resolution passed, could there?

Mr. HULL. Why certainly.

Mr. WINGO. Then is when he is going to change his mind.

Mr. HULL. Certainly. You do not by the passage of the Green resolution—

Mr. DALE (interposing). It does not become a law until ratified.

Mr. HULL. I mean, when it is ratified, that does not prevent Congress exempting farm-loan securities.

Mr. STEVENSON. But if you exempt them you have got to exempt all the others and there is no use passing the resolution.

Mr. WINGO. That is the trouble with the Green resolution. You have your fingers crossed when you pass that. You are a man of experience, Mr. Hull, and you know that if we did what you suggest it would absolutely nullify the Green resolution. Why not be frank about this thing? If it is right to exempt all farm loans from taxation, why not do it boldly and justify it; if it is wrong, why not condemn it and justify it?

Mr. HULL. I will have to study that question, but I do want to call the attention of the committee to this fact that in increasing this amount to \$25,000, you do not always increase the loans to \$25,000. The large part of these loans will be \$11,000, \$12,000, or \$15,000. My attention was called to a loan wanted for \$11,000, and it was absolutely impossible to do business with the farm banks, because that farmer had to have \$7,000 and he had plenty of security, too.

Mr. STEVENSON. Mr. Hull, do you happen to know that the average loan of the farm loan system for the last three months has been \$3,000?

Mr. HULL. I am glad to know that.

Mr. STEVENSON. Did you know that the average loan of the joint-stock land bank runs right around \$10,000?

Mr. HULL. I presume that is true, and I am glad to know they are keeping it down.

Mr. WINGO. Why are you glad to know they are keeping it down? I thought you were in favor of it. What is wrong with this joint stock bank? Give me some grounds to justify abolishing it. Is it not functioning?

Mr. HULL. Here is the trouble and what we have to realize: The average farm in this country, I presume, is worth \$3,000 to \$10,000. The average farm in the State of Iowa is worth something like \$40,000.

Mr. STEVENSON. You gentlemen keep talking about the high values of farms in your State. Every time I ask a question you commence talking about the farms of Iowa and their high value. The county in which I live also has farms of good value. In it there has not been a foot of farming land fit to farm sold in 10 years for less than \$250, and a lot more sold for \$500. You have not a patent right on that. That is not the reason we are objecting to this thing.

Mr. HULL. I am glad to know that the land that produces well is worth that. Mr. STEVENSON. But those fellows are not always hollering around about borrowing from the Federal land bank. When they have 200 acres of that land they can get money anywhere.

Mr. HULL. There was a time when they could not. I remember the time when you people on the floor of the House—

Mr. STEVENSON (interposing). That was short-term loans; that was not the long land loans.

Mr. STRONG. Mr. Stevenson, has it always been true in your community that you could always get those big loans on that fine land?

Mr. STEVENSON. Quite uniformly so.

Mr. STRONG. I want to say to you that that may be true in the East, but in the West that is not true.

Mr. STEVENSON. It is the short term loans where our people have suffered. Mr. HULL. There was a time when the farm banks were not putting out any loans.

Mr. WINGO. I spent 60 days in Iowa studying the credit system of the Iowa farmer, and without a single exception thoughtful men told me this, when I would ask them "Why has your population decreased and why has the average size of the farm belonging to the individual increased?" They regarded both facts as an evil, and they credited the decrease in your population to the increase in the monopoly of holding of lands and said that the only solution of the problem was to help the little fellow get a small home, whereas under the present system they were being driven out, and that you were gobbling up the farms in big holdings and that those big holdings were

being financed by a low rate of interest, whereas the little fellow could not get it upon reasonable terms at all.

Do you think that by increasing the maximum and making it possible for those men who are monopolizing your rich lands to get long-time amortization loans at a low rate of interest through a governmental agency, it accentuates that economic distress that is bothering your people?

Mr. HULL. I do not think that your premises are correct.

Mr. WINGO. You do not think that your population has decreased?

Mr. HULL. I do not think there is any tendency at present to increase land holdings.

Mr. WINGO. Is it not a fact that your farm population decreased from 1900 to 1910?

Mr. HULL. There was a decrease in population.

Mr. WINGO. Is it not true that the average holdings of individuals became larger and are becoming larger all the time?

Mr. HULL. No.

Mr. WINGO. In other words, the number of farm-home owners is becoming smaller in Iowa?

Mr. HULL. I would not think that that is true; I think it is exactly the opposite that is true in my section. Each 150 acres is being cut up into 80's and 40's largely.

Mr. WINGO. So you think the average size of the farm out in Iowa is getting smaller instead of larger?

Mr. HULL. In a great many cases.

Mr. WINGO. What is the general average in the State?

Mr. HULL. I do not know what the statistics show, but the large farm is 160 to 320 acres, and the small farm is from 40 to 80 acres, and there are a good many more 40's than there were a few years ago.

Mr. WINGO. Did your farm-owning population decrease from 1910 to 1920?

Mr. HULL. I think there was a slight increase. I am not sure about that, but I am quite confident that the farm population has increased. I know the desire is to get on the farm.

Mr. WINGO. I am not talking about the farm population; I am talking about the farm-home owners. I am talking about the increase in the number of tenants and the actual number of persons residing on the land. Is it not an indisputable fact that the number has decreased of those?

Mr. HULL. It might be true. Of course that question is also complicated; but this question of so many farmers letting their children run the farms and they own it, that is taking place to a wonderful extent in the State of Iowa.

Mr. WINGO. Do you think this would help to increase or decrease the number of farm-home owners in the State of Iowa?

Mr. HULL. I think it would help to increase it.

Mr. DALE. Mr. Lyman is here. Mr. Lyman, please give the reporter your name and state whom you represent.

STATEMENT OF MR. CHARLES A. LYMAN, SECRETARY NATIONAL BOARD OF FARM ORGANIZATIONS, WASHINGTON, D. C.

Mr. LYMAN. My name is Charles A. Lyman, secretary of the National Board of Farm Organizations. Our board is opposed to this bill, though not necessarily in its entirety. But the provision which we favor I would prefer to discuss later on.

I am here by the authority of Mr. Charles S. Barrett, the chairman of the national board and the president of the National Farmers' Union.

Many of the State farmer unions are opposed to this bill and are taking steps this week to do what they can in showing what the bill will do. I would like very much to go ahead with my statement without too much interruption.

Mr. DALE. Mr. Lyman requests that he be permitted to make his statement without interruption and without objection that will be the order.

Mr. LYMAN. Thus far, the committee and the people who have been present have discussed one part of one amendment; that is, the part for the increase in the loan limit from \$10,000 to \$25,000, which is part (d) of one section. Therefore, it is one twenty-fourth part of the bill.

The points which I would like to bring out are several. In the first place, let me say that our member organizations, for the most part, and myself personally have had a very active interest in this Federal farm loan system. I have here three volumes of reports of the National Conferences on Marketing

and Farm Credits. The first one was held in 1913; the next year a conference was held, but no published report was made, and then in 1915 and 1916 conferences were held with full reports published as you can see. These conferences were held at Chicago, and were attended by as high as a thousand delegates. Marketing and farm credit was what these conferences were called for.

We had great authorities on cooperative credit address us, among them David Lubin. We had men who had been all over the world studying cooperative credit, both mortgage credits and personal credits; and the upshot of those meetings was that a powerful influence was exerted in this Nation for the creation of a system of farm credits.

Most of us who are farmers and representatives of farm organizations wanted cooperative credit, or the kind of credit we have now in the 12 Federal land banks and in the 4,000 national farm-loan associations.

Of course, the banker influence of this country was opposed to cooperative credits for the most part. There were a few exceptions. The life-insurance companies of this country were opposed to this thing. They had men who were thoroughly aware that over in Europe for 100 or 150 years through cooperative associations the farmers of certain nations were getting amortized loans running as long as 50 years or more for as low a rate of interest as 3, 3½, 4, or 4 per cent.

Mr. Chairman, there are influences at work to-day thoroughly aware that if the Federal farm-loan system is allowed to function as the lawmakers originally intended it to function interest rates in this country are going down as low as 4 per cent. I think they are going down as low as 4 per cent with amortization. At the present time they are 6 per cent with amortization. In other words, they are going down one-third lower than they are now; and agriculture, if it be permitted to give the ample security which it can give in this system, is entitled to get its interest rates as low as 4 per cent. It is going to do so if we hold fast.

The reason why it is going to do it is because of its outstanding cooperative principle which is now embedded in the farm loan act, and the Strong bill is going to strike a terrific blow at that cooperative principle.

We say that where farmers are willing to go to a little trouble and associate themselves, 10 or more together, with this joint liability that they are entitled to get these low rates. How do they do that? In several ways, one of which is by taking stock in the farm-loan associations—5 per cent of their loans. Do you know what that amounts to now? It is over \$38,000,000 and pretty soon it will be \$50,000,000, and by and by it will be \$100,000,000 and it will provide an enormous security for the bond-investing public.

Coupled with all the other safeguards that the law proposes, the Farm Loan Board is given sole authority to pass upon these loans, making its own appraisals, making its reports, and the farm-loan commissioner must approve of every loan that is utilized as security for the bonds issued.

This bill, I believe, is trying to do away with all that. It will start to do it and would eventually accomplish it. In the first place, the present law gives the cooperative borrowers in these 4,000 farm-loan associations the right to elect a controlling number of directors in each of the Federal land banks. The law says that they may select six out of the nine permanent directors. They have not done that yet, and I do not believe I need to go into the reasons why they have not done it. It is due to an amendment which was put through right after the war to enable the Secretary of the Treasury to buy \$200,000,000 worth of these bonds, so that they would not be thrown on the market in competition with Liberty bonds, and Mr. McAdoo did buy over \$100,000,000 of those bonds.

An amendment was put through at that time which said that as long as the Secretary of the Treasury held any of that particular issue of bonds (which ran for 20 years) that that part of the act which provided for the election of these permanent directors should be inoperative. So it seems that so long as the Secretary of the Treasury holds a single one of that particular bond issue these cooperative borrowers will be denied the right to elect their permanent directors.

This particular bill takes away the right of these cooperative borrowers in the national farm-loan associations to elect a control in their land banks. It says that the farmers shall elect three directors instead of six, as the law now reads; that the Farm Loan Board shall appoint three; and that those six thus elected and selected shall appoint the seventh, who shall be a farmer. That looks all right on its face, except a provision is in this bill that in case

these six directors can not agree the farm-loan commissioner shall appoint the seventh.

It is perfectly obvious that the Farm Loan Board can simply say to its appointees, through the Federal land banks, not to agree, to deadlock. Of course, automatically, then, the power is vested in the farm-loan commissioner to appoint the seventh director.

In other words, this bill, in the first place, absolutely runs contrary to what the law originally intended. It vests sole bureaucratic power in the Federal Farm Loan Board. That may be a good thing under certain circumstances, and it may be a very bad thing; it depends on the character of the men who are running the Federal Farm Loan Board.

If, gentlemen, you should find that there are men now on the Farm Loan Board who have been opposed to cooperative credits in the old days when we were working for this system, and you find they have been or are closely connected with land-mortgage brokers; if they have said down here in Washington or if they shall say at some future time that they do not believe in the cooperative features of the farm loan act—if they have said that unless they can call off or eliminate the farm-loan associations they will resign from the board, then, gentlemen, I think you will agree with me that it might not be wise from the farmers' standpoint for them to have perpetual control of the Federal Farm Loan Board.

Coupled with that point you will find in the bill a provision which provides that a central bond-selling system shall be created. At the present time the law says that each Federal land bank may sell its own bonds, if the appraisal has been approved and the loans have been approved by the Farm Loan Board. These 12 land banks have not done that, and the reason they have not done it is because at the present time these 12 Federal land banks are officered and run by temporary directors, and those directors are appointed by the Federal Farm Loan Board, and these different land banks have voluntarily surrendered their right—I know it has been forced upon your bank, Mr. Corey—to market these bonds. If you will look up the statistics, you will find that certain Federal land banks—for example, Columbia, S. C.—have not had their bonds marketed through this Farm Loan Board in the ratio that they should have had them marketed. I believe that the percentage of applications which were taken care of by one sale of bonds of \$75,000,000 a few months ago was only 26 per cent for the land bank at Columbia, S. C.

Another land bank that was not successful in selling its quota of bonds through the board was the Baltimore bank, which sold through the board 51 per cent; while the Springfield, Mass., bank, through the board, sold bonds to the extent of 117 per cent of its applications.

This bill creates a permanent bond-selling arrangement. Let us visualize these 12 banks, controlled by four out of seven permanent directors and controlled by the board here at Washington. Then let us see the central bond-selling arrangement which takes away the power which the law now gives each individual land bank to market its own bonds.

What a land bank can do and what it will do when it gets permanent directors is to popularize these bonds in its own district and take steps so that it will not have to be satisfied as in the case of the Columbia bank, with 26 per cent of applications which have been made for the farmers in that district. This is based upon a letter from Mr. Lever, dated April 3, 1922, as I understand it.

In addition, this bill provides for voluntary liquidation of National Farm Loan Associations. Let us not be misled by that term "voluntary." Liquidation is liquidation, whether it is voluntary or compulsory. I say it is compulsory, for the reason that there is a provision in this bill which says that the 12 Federal land banks may make loans in the future through agents of their own choosing.

You know perfectly well who those agents are likely to be. They are going to be the regular commercial banks, State and national banks; they are going to be life insurance agents, fire insurance agents, and others relieved of the responsibility which the present law imposes.

For the most part—now, of course, there are notable exceptions—the people who will be selected by these 12 Federal land banks will be the very people who strenuously opposed the creation of the Federal farm-loan system. We did not get any help from the American Bankers' Association, the life insur-

ance companies, or the mortgage bankers. Did you? No. They, for the most part, fought openly or otherwise, and fought strenuously against the creation of this Federal farm-loan system.

If these land banks, permanently controlled by the board as in the bill, appoint agents of their own choosing which they want to do, if a way is worked out for voluntary liquidation—which is liquidation, nevertheless, although under a very innocent-sounding name—then it will appear that the association will be forced to liquidate. Why? For the reason that the liability of the borrowers in the National Farm Loan Associations not only remains as it is, but actually increases, as the new borrowers get their loans through the local banks and other agencies. Because the liability on the borrower who gets his loan through the local agency, to be created by this bill, is not so great as the liability which now exists in the borrower who belongs to the National Farm Loan Association.

That is just the long and short of it. This bill has been drawn in an exceedingly clever way. It provides for voluntary liquidation, and then for the creation of these agencies to make the loans, and the liability of the borrower through these agencies is going to be less than the liability of the present borrowers, and as the present cooperation borrowers see their liability increase they naturally will be forced to liquidate to protect their own interests. They will also liquidate due to the pressure brought to bear by those who wish liquidation.

We say that this law should stand about as it is. In addition to that, it should be administered in the spirit in which the lawmakers intended it to be administered. They intended, long before this, for these 12 Federal land banks to be officered and controlled by six out of nine permanent directors elected by the stockholders. This bill takes away and absolutely destroys such right; it gives the board perpetual control.

Mr. DATE. Unless there is objection on the part of some Members, and it is convenient for Mr. Lyman, we will take a recess until 2 o'clock.

(Thereupon at 12:20 o'clock the committee took a recess until 2 o'clock this afternoon.)

AFTER RECESS.

The committee reconvened at the expiration of the recess.

Mr. STRONG (presiding). Mr. Lyman, will you continue?

STATEMENT OF MR. CHARLES LYMAN—Resumed.

Mr. LYMAN. Mr. Chairman, I said to you at the close of the morning session that I desired to recapitulate very briefly some of the objections I covered this morning during your absence from the committee while I was speaking.

Mr. STRONG. I was called out and regret I was not present when you did make your statement. I would be glad to hear from you.

Mr. LYMAN. This morning it was agreed, Mr. Chairman, that I might go ahead with my statement in my own way, and then that I would be subjected to cross-examination if anyone so desired. I think I can get through in a little while now.

In the first place, I have been able to get back to my office this noon to secure a copy of resolutions that have been adopted by our board at different times during the last two or three years, and I would like to have permission to introduce this as a part of my statement.

Mr. STRONG. Are there any objections from the committee?

Mr. STEVENSON. What is it he wants to introduce?

Mr. STRONG. Some resolutions that have been passed by his board during the past few years attacking certain provisions of the bill. If there is no objection, they will be inserted in the record at this point.

(The resolutions referred to follow:)

Resolutions adopted by the General Conference of the National Board of Farm Organizations.

COLUMBUS, OHIO, SEPTEMBER 1-3, 1920.

National Union of Farm Loan Associations: We give our hearty and unequalled indorsement to the movement for the formation of the farm loan associations into a national union as one of the first steps toward the realization of the

hopes and expectations of the friends of the farm loan act, and as a necessity for the preservation and continuation of the benefits of that act. Such union or alliance must necessarily be the voluntary expression of the members of the farm loan associations for representation free from official supervision and control.

WASHINGTON, D. C., OCTOBER 31—NOVEMBER 2, 1921.

We unreservedly indorse the Walsh bill (S. 273), which seeks to restore to the local farm loan associations the control of the Federal land banks, to which their ownership entitles them.

We urge that the maximum loan permitted through the National farm loan associations to the individual be increased beyond \$10,000.

We pledge our hearty support and approval of the Fletcher bill (S. 620), which will provide a broad and constant market for farm loan bonds by allowing such bonds to be utilized as collateral security, for rediscounts with the Federal reserve banks, according them the same privilege now enjoyed by Government bonds.

NATIONAL BOARD OF FARM ORGANIZATIONS.

Washington, D. C., October 26, 1922.

Resolutions adopted by the semiannual conference, October 11, 12, 13, 1922:

FEDERATION OF NATIONAL FARM LOAN ASSOCIATIONS INDORSED.

Whereas there has been formed the Federation of National Farm Loan Associations to act as a national clearing house for advancing the interests of the cooperative borrowers, organized under the farm loan act;

Whereas it was the National Board of Farm Organizations which, at the beginning, made possible the organization of this federation; and

Whereas, as expressed by Senator Duncan U. Fletcher, the federation has proved to be a "most desirable, useful, much needed, and highly efficacious organization, organized by the sincere friends and genuine supporters of the farm loan act"; Therefore be it

Resolved, That the National Board of Farm Organizations continue in hearty indorsement of the Federation of National Farm Loan Associations; and further be it

Resolved, That our member organizations in their territorial jurisdiction should stimulate and encourage all National Farm Loan Associations to unite with the said federation.

FARM LOAN BONDS.

Whereas the Federal farm loan bonds now held by the United States Treasury command a premium in the market, the purpose for which they were purchased having been accomplished; and

Whereas such holding of bonds under an amendment to the Federal farm loan act deprives the stockholder of the Federal land banks of any voice in the management of said banks, subversive of their constitutional rights; and

Whereas such a condition has been brought about in violation of the expressed intent of Congress: Now, therefore, be it

Resolved, That we demand the immediate sale of said bonds, or the repeal of said amendment, whereby the National Farm Loan Associations owning more than 85 per cent of the stock of the Federal land banks may proceed with the permanent organization of said banks in accordance with the original provision of the farm loan act.

FARM LOAN ACT.

The National Board of Farm Organizations in convention assembled, after full consideration of the information imparted by reports from the farming interests throughout the country as to the practical working of the farm loan act, respectfully suggest to Congress the following changes in said act:

1. That our previous recommendation for a change in the maximum limit of a mortgage loan to any one borrower from \$10,000 to \$25,000 be indorsed, and that we urge the passage of such amendment as essential for the continued benefits of the farm loan act to the farming interests.

2. That the 20 per cent maximum limit for mortgage loans upon permanent insured improvement, as now provided by section 12 of the farm loan act, be increased to 50 per cent: *Provided*, That in no case shall the amount loaned on the building exceed the amount loaned on the land.

PURCHASE OF FEDERAL FARM LOAN BONDS.

Resolved, That the Federal reserve banks be authorized to purchase Federal land bank bonds and make said bonds eligible for deposit with the Government for additional circulation provided said bonds bear a rate of interest not exceeding 4 per cent.

Mr. LYMAN. I would also like to introduce a resolution passed by the National Grange at its last annual meeting. I am sure there would be no objection. The National Grange always justly takes deep pride that its formal action, as evidenced by the resolutions adopted, are well and fully considered, and I know you will be greatly interested in the resolution.

Mr. STONG. There is no objection.

(The resolution of the National Grange follows:)

"Whereas the official representatives of the National Union of Farm Loan Associations have presented from the official records of the Farm Loan Board proof that the Farm Loan Board is on record in its first annual report (for the year 1917) as doubting the capacity of the farmers to manage the affairs of the Federal land banks, which these farmers own, and that in the same report the Farm Loan Board asked Congress to enact an amendment to the farm loan act providing for 'a lengthened period of governmental control,' which amendment was adopted by Congress, and the effect of which has been to deprive the farmer stockholders of all voice in the management of the Federal land banks, thereby making inoperative and practically destroying the cooperative features of the act; and

"Whereas, The National Union of Farm Loan Associations has retained an attorney for the purpose of bringing mandamus proceedings to compel the Farm Loan Board to install the permanent organization of the Federal land banks as contemplated in the farm loan act as originally passed; and

"Whereas this action is about to be commenced in the Federal courts of the district of Columbia: Now, therefore, be it

Resolved, That we, the National Grange, do hereby indorse the action of the National Union of Farm Loan Associations in bringing this suit, and bespeak for it the support of all farm organizations interested in the preservation of the cooperative features of our present rural credit system."

Mr. LYMAN. In the first place, this morning I said that the effect of this bill will be to destroy the national farm loan associations, for the reason that the plan for "voluntary" liquidation, as worked out, is so intended. I said that inasmuch as the bill also provided for loan agencies to be appointed by the land banks for the purpose of making loans to the farmers, and that inasmuch as the liability which the future borrowers—who will get their loans through these new agencies—is less than that of the present cooperative borrowers, it will necessarily throw a greater liability on the present borrowers in the national farm-loan associations, and that when cooperative borrowers find that our they will naturally want to liquidate their associations. So it is not really voluntary liquidation. The bill is deeper than that; it is really compulsory liquidation.

In that connection Mr. Flannagan has worked the thing out very carefully. Mr. Flannagan is here, and can also go into the matter.

The American Bankers' Association for a good many years has been interested in this Federal farm loan situation. A very able banker from Illinois went abroad and traveled all through Europe, and came back thoroughly informed of what farmers were able to do in Europe with cooperative long-time credit. That is George Woodruff, of Joliet, Ill.

Mr. Woodruff is chairman of a committee for the American Bankers' Association, and has given a great deal of time and thought to this whole matter.

As I said this morning, there is no doubt in my mind that interest rates are going lower as the general public becomes educated to the fact that these farm-loan bonds, as safeguarded by the original act, are the best security on earth.

Mr. Woodruff was down here last winter as a member of the President's agricultural conference. I sat beside him as a member of the agricultural finance committee of that big conference. I had met him before, and I knew his

views; but he took special pains to tell me how important, in his judgment, it was to let the banks in Illinois and the banks elsewhere act for those cooperative borrowers, and he was working with some of the farm organizations to this end.

It appears that one farm organization favored this bill and will appear in favor of it here—the American Farm Bureau Federation. I looked through the files of the American Farm Bureau Federation weekly printed letters, and I find that last January, 1922, the Farm Bureau Federation was meeting with the American Bankers' Association over these very things. I have not got the letter with me. It is up in my office. But I have a letter of my own here which quotes accurately from this release of the American Farm Bureau Federation. I am not bringing this up for the purpose of attacking farm organizations, but merely to show you the interest of the American Bankers' Association. This is from the letter of the American Farm Bureau Federation under date of December 7, 1922. First let me read from the letter of January 28, last year, an excerpt:

"A conference was held at the office of the American Farm Bureau Federation in Chicago, January 18, attended by representatives of the American Bankers' Association and the American Farm Bureau Federation, to consider the Federal land bank and possible ways and means of extending the scope of its functioning so that it may occupy the place in its field of agricultural financing that the Federal reserve system does in commerce and industry.

"It was unanimously agreed that there should be some working connection between the local banks, which are the farmers' friends and first aid in every need, and the Federal land bank."

I simply cite that to corroborate my statement, which is easily susceptible of further proof, that the American Bankers' Association took the keenest interest in this whole matter. George Woodruff went over there and other men also went abroad. They reported back. They did not favor this thing, because they found when they went abroad that interest rates got down, as I said this morning, away below 4 per cent. They did not want that, naturally. It is the business of these banks to lend money, and if possible they will do the lending in the old way, too. This act provides a comparatively new way of lending money.

But we found that through cooperative effort the farmers could get low rates of interest, with amortization payments—in our country, now for a period of 33½ years, I believe—and found out that this system existed in the Old World, and that it worked successfully. We did not incorporate the same thing exactly in this country that they had in other countries, but this modification came along that somebody has referred to—the joint-stock land banks, also as a part of the system.

The very folks that did not want this system are now trying to get into the system. If this bill goes through and every bank, big and little, out through the agricultural States and elsewhere, become agents of the land banks, then, while I do not believe that the whole system is going to be overthrown in a hurry, still I do believe that it will be next to impossible to drive along to that goal of 4 per cent interest in this country. And that is what we, if we are permitted, are going to get. We were paying such high rates of interest in this country that 6 per cent now, including that one-half of 1 per cent amortization, seems fairly low. But it is not low enough yet to insure a stabilized agriculture in this country. It ought to be lower, because the security is the best on earth. Governments have been overthrown, but land-mortgage bonds have been repudiated in very few instances in the history of modern times, even in case of conquest.

I just want to point this out, because I think I have given you proof here of the interest of bankers. I realize that many of the bankers are friends of the farmers; they are friends in many other ways besides this. But this is one way which they do not see is for the benefit of the farmer; they did not see it at the start, and some of them do not see it yet.

Then there are the life insurance companies of this country. You know they were lending millions upon millions of dollars out through Iowa and elsewhere. They got 6 per cent interest, and sometimes more, and they had local banks and insurance agents, and so on, all through the States, who placed those loans and got a bonus of 1 per cent, usually.

Then these local agents, when the time of renewal came about, would say, "I do not believe you can get this renewal. Money is a little tight." But,

finally, it worked around that if the farmer borrower would give the local agent a bonus, which might be 1 per cent or 2 per cent in addition to the 1 per cent that this agent was used to getting, that he would get his loan.

Just during the last two or three years that thing has been going on again out through the West. The Farm Loan Board did not push the sale of bonds during the time when the mortgage bankers of your State [Kansas] started that suit attacking the constitutionality of the farm loan act—they did not do very much; I think that I have a right and others have a right to criticize a little, and I think the Federal Farm Loan Board should have acted as if they thought they were going to win. There was no injunction against the Farm Loan Board to prevent issuing bonds, but they just simply halted, waited, and marked time.

I also said, Mr. Chairman, this morning that this bill will put the control with the Federal Farm Loan Board—perpetual control—because in reality the board will get four out of the seven permanent directors. I know that it is provided that the seventh man shall be a farmer living in the district, but it says that in case the six directors can not agree the farm-loan commissioner shall appoint the seventh, and the whole experience down here the last two years is that the Farm Loan Board, or certain members of it, have thought they should absolutely control the affairs of these twelve land banks, and I think the will continue to feel that way, especially if this bill is passed.

For observe that the Farm Loan Board is back of this bill. In the letter of the Federal Farm Loan Bureau of December 9, signed by Governor Cooper as a member of the Farm Loan Board, I find this, referring to the Strong bill (H. R. 1325):

"This measure, the first in the nature of a general revision which has been presented to Congress in the last three years, was introduced in the House of Representatives by Congressman Strong, a member of the so-called farm bloc of the House, having been placed in his hands by the legislative agents of the Federation of Farm Bureaus, whose approval it has."

I wish to state at this time that the chairman informed me this noon that he was not aware that it was placed in his hands by any agent of the Federation of Farm Bureaus.

Mr. STRONG. I suggest that you incorporate the entire letter in your remarks. Mr. LYMAN. Yes; but I would like to point out one or two other things. I would be very glad to do that. [Reading:]

"The Farm Loan Board is inclined to approve the measure in its entirety."

Now, then, referring to a few other matters, provisions for permanent organization and increasing the loan limit, the letter says that:

"It appears necessary to include both these provisions in order to secure the adoption of either."

Mr. STEVENSON. What are those two provisions?

Mr. LYMAN. The two provisions, Congressman Stevenson, are the provisions for permanent organization with the control with the board and for increasing the loan limit; and the letter says:

"It appears necessary to include both these provisions in order to secure the adoption of either."

Thus far I have not discussed the one provision that took up so much time in the forenoon, and I do not want to do it just yet, but it seems to me that if a person did favor that increase, knowing what the whole bill would do, it would be a very heavy price to pay to allow these other provisions to go through in order to secure the increase in the loan limit. That is all I would like to say about that just for the moment.

I might also add that there is another release of the Farm Bureau Federation—I have not the exact quotation, but any one can find it, as I know these printed release are over at the Agricultural Department—that refers to a meeting which the farm bureau had out at Chicago with this banker, George Woodruff, I have referred to. For the last two or three years these bankers, many of them, did oppose and a great mass of the banks are opposed to the farm loan act, and have been trying to get somebody to give them this entering wedge into the system.

I want to point out what that means. These cooperative associations will be liquidated, and I have shown how they will be forced to liquidate. I want to show you what that means, having in mind now that taking their place will be local banks and local money lenders. The situation is just as if at the present time the farmers of this country had a great national mutual life

insurance company (we will take as an example the Northwestern Mutual Life, of which I am a policyholder), in which they owned a control, and the way they have of voting and controlling it was, we will say, by means of 100 or a thousand voting units; and then all of a sudden somebody proposed to eliminate those associations, leaving 100,000 or 200,000 stockholders to go milling around by themselves. As a stockholder in the Northwestern Mutual Life Co., theoretically I have a chance to exercise a vote in electing officers in that company. In practice I do not do anything of the kind, because it would be absurd to do it. I am not in touch with the other stockholders and in no way do we express our wishes. Louis Brandeis might do it or Samuel Untermyer might do it. With their great resources they might work up a fight for the policyholders that wanted to control, but a person like myself could not do that.

We now have these cooperative national farm loan associations. The law now provides for them to vote and elect permanent directors, and this bill provides for voluntary liquidation, and provides another way to make the loans; and there will be bankers, some lawyers, some life insurance people to act for the borrowers when what they need is the present association to act for them in expressing their wishes. I ask you this question: Suppose you people here, having the welfare of these farmers at heart, wanted to get in touch with the cooperative farmer borrowers and tell them that by a little pressure here and there, backing you up, that you would bring the loan rate down another per cent. Where would you write? You would write to those associations, would you not? Perhaps if you were wise, you would not write to the secretary-treasurer in all cases, because many bankers have volunteered already to act for these associations. You would write to the secretaries and also you would try to get a list of the presidents who have to be borrowers. You can do that. You can not do it if you eliminate those associations.

Suppose you send out an appeal, and the only persons between you and the Federal Farm Loan Board and the 12 land banks and the farmers were local bankers. Do you think those bankers would call attention to something that would reduce the rates of interest 1 or 2 per cent more? Do you think they would bring such matters up at the stockholders' meetings? Not many of them. They are, by this bill, going to destroy the machinery whereby these farmer borrowers can do something for themselves and to protect themselves.

Not very many of these associations know what the effect of this bill will be, because the Farm Loan Board favors this thing; the Farm Loan Board sends out letters to the associations as often as it wants to. It has money for that purpose; it uses the Government frank. No individual has the resources here that I am acquainted with who has both the means and the disposition to spend \$100 or \$200 for letters and postage every time the board sends out something that we believe is not for the ultimate interest of the borrowers. We can not send out such letters because the cost is too great. And if you eliminate these associations, don't you see the cost will then be absolutely prohibitive?

One would have to write two or three hundred thousand letters direct to the borrowers or else depend on the doubtful aid of the prospective agencies. I am aware that those associations are not going to be eliminated in a minute, but the effect will be to make them liquidate hereafter. I said this morning that it might or might not be all right to let the board have permanent control. I want to change that. I do not think it would be right in any event, no matter if those men were all perfect men. The lawmakers who passed this act provided for majority control by the borrowers. I believe they wish to encourage self-help and not build up bureaucracy.

I said it would be very bad if it were true that the Farm Loan Board at the present time, or at future times, were opposed to the cooperative features of the farm loan act. In asking your questions of me or anybody else I would suggest that it would be important to satisfy yourselves whether members of the Farm Loan Board believe in the principles of the cooperative features of the farm loan act. You understand that is a very pertinent question.

If they do not believe in the cooperative features of the farm-loan act, if you find they have been trying to eliminate these national farm-loan associations, then is it not pretty good evidence to you that if they should get permanent control of these 12 land banks that they will have the means and the power, and will exercise it, to liquidate these associations very, very fast?

There is another feature I want to bring out, and that is that the Farm Loan Board, which approves of this bill, believes that the expense of the bureau down here at Washington should be borne by the borrowers. That

feature is in the bill and if it is carried out, the auditing officials of the Government will not have any right to make an audit; Congress will not know what the Farm Loan Board is doing nor what the farm loan system is about. The Bureau of the Comptroller of the Currency, which looks after the national banks, is supported by appropriations from the Government, as is also the Internal Revenue and other Bureaus of the Treasury. I do not think the farmers are asking any unusual favors when they want to permit the Government to take care of the necessary expenses of the Farm Loan Bureau down here at Washington.

There will then be little or no check on what they are doing; nothing, as I see it, that will give Congress authority to look into the affairs of this board in any practicable way. The same proposition was made three years ago by the Farm Loan Board and defeated.

There is one point that the Farm Loan Board has been talking about a great deal for several years. I think in their first annual report—Mr. Flanagan is here and correct me if I am wrong—the board came out in its first annual report and said that it did not really believe that these national farm-loan associations should have a controlling voice in the affairs of these 12 land banks, and even raised a great deal of talk about the fact that the buying public would not invest in these bonds if the farmers could get control of these banks. As a matter of fact, all these bonds have been sold in contemplation of the actual provision of the law, that the farmers would control these banks. It was accidental, perhaps, that that amendment was put into the law here four years ago, which has taken away temporarily the right of the farmers to elect six out of nine directors. It is hardly possible that it was done deliberately in order to change permanently the whole principle of the law.

Now the board says that the public will not invest in these bonds if these farmers have six out of nine directors, and they cite an instance of some man out in the Omaha district who said he would run on a certain ticket when the time came to run, to wit, that the farmers mortgages should not be foreclosed. I suppose they have other statements of that sort.

I want to show that there is an analogy and a very close analogy between the running of these land banks and ordinary banks. Take the regular commercial bank, State or national bank. The stockholders elect all their directors, and yet those stockholders controlling that bank maybe owe the general public eight or ten times or even twenty times the amount of their capital stock. I am talking now of the general depositors who have put their money in. I have known of a bank that had twenty times the amount of its capital stock on deposit.

We concede that the present provision of the law is all right that gives the Government the three directors out of nine; and I think in practice those three men appointed by the Farm Loan Board will be very largely the men who have built up this thing to its present point. I think in practice that the other six directors will be largely bound by these three Government-appointed directors. In practice I think that will be the effect for some time. The time may come when these six directors will become thoroughly acquainted with banking, as they should; and then they will understand whether the other three directors have been working entirely in their interest—they may or may not, but in practice I think those three men will most amply protect the Government.

But that is not the only protection that the Government has. The Government and the bond buyer is wonderfully protected now. In the first place, the Farm Loan Board appoints the appraiser; no loan is made without the report by the Government appraiser and his approval; no loan is allowed as a security for a bond issue until the Farm Loan Commissioner approves of it. Every safeguard is put around the loan at the low rate of 50 per cent of its appraised valuation of the farm. I think that the rate they can loan on the value of the buildings—20 per cent of the insurable value—is too low myself. Every proper protection exists now, and bonds can not be issued against the mortgages without the approval of the Farm Loan Board being given to the loans pledged.

The commercial banks and other institutions and trust companies are allowed to elect all of their directors and control their affairs just as they see fit, subject, of course, to general inspection and supervision from bank examiners, etc. I think certainly that these farmer stockholders who own about 90 per cent of the stock in the 12 Federal land banks should be entitled to do just what the law says they shall do—have their six out of nine permanent directors.

The Strong bill says the other thing—gives the board an easy way to select four out of the seven directors. That is one of the things that the National Board of Farm Organizations has been protesting against right along. The

National Grange, in a resolution which I shall introduce, went on record out at its meeting in Portland, Oreg., last year asking that these permanent directors should be elected as the law originally provided.

From every standpoint that I can see it would be a great mistake to pass this bill in its entirety or in anything like its entirety.

As to one of the provisions which the Farm Loan Board's letter says should go in in order to get through Congress—that is, to increase the loan from \$10,000 to \$20,000 or \$25,000—I would say that that matter has been discussed up and down in our board meetings, and while there is a minority sentiment which takes the opposite position, still we have declared in favor of the \$25,000 increase. So that from our position, as previously declared, we should favor the increase.

But that does not mean that in order to get it through we are willing to let this whole cooperative system be overthrown; that is a fearful price to pay. We believe that the matter of the increase should stand on its feet and be presented and voted on, and not put into a bill which is backed by loaning agencies who, in the first instance, were opposed to the Federal farm-loan system.

There are a good many other things I could go ahead on, but I am going to close now, and if there are any questions I will try to answer them.

In looking over this whole matter I am really amazed that Congress ever enacted a law so liberal. It is so far-reaching; it contemplates such a wonderful benefit for American agriculture. When we get wonderful things for American agriculture, we have to get up awfully early in the morning.

When the present administration gets something as good as this, when our worthy chairman here is successful in getting an actual farmers' representative on the Federal Reserve Board—or not only one, but two or three farmer-minded people on the Federal Reserve Board, or something of that sort—then I think they can congratulate themselves just as much as the other administration that put through this wonderful forward looking act.

Mr. STRONG. You know, do you not, Mr. Lyman, that the only thing that is preventing the appointment of a farmer-minded man is disagreement among the farm organizations, do you not?

Mr. STEVENSON. That is just what I want to get a little inside information on. When are we going to get an agricultural-minded man appointed, when he has been provided for nine months?

Mr. STRONG. When somebody can suggest a man that the farm organizations can unite on and approve of.

Mr. WINGO. I understand your organization is in favor of that feature of the bill on the maximum amount of the loan, raising it to \$25,000?

Mr. LYMAN. Yes, sir.

Mr. WINGO. But your chief objection is to the reorganization provisions which you contend are so framed that it will not only mean that the system will have its directors, the majority of them, appointed not by stockholders but by the Government board, and, in addition thereto, that the natural evolution of this bill providing for the voluntary liquidation may mean the destruction of the cooperative feature of the present law, and will have a tendency to put the local administration and the distribution of the benefits of the act into the hands of those who sincerely doubt the wisdom of the original act.

Mr. LYMAN. Yes, sir; and along with that the big thing which I wish the committee would bear in mind—the biggest thing of all, as I see it—is that if we can hold to what we have got, we are going to get this interest rate down much lower than it is now.

Mr. WINGO. Your theory is that by developing the system of cooperative credits in this country that it will strengthen those credits and will thereby, as a business proposition, reduce the interest rate?

Mr. LYMAN. Yes, sir; that is it exactly. We have now these farmer stockholders owning 87½ per cent of this stock. The total stock is around \$36,000,000, in round numbers, and then there are several million dollars undivided dividends that belong to these stockholders. That \$36,000,000 has come about in a comparatively short time, with the board or system not functioning very well. If they can build up \$36,000,000, which is back of the bond issue as security, what can they do by and bye with \$50,000,000 or \$100,000,000?

Mr. STEVENSON. The objection is made to leaving the control with the associations that they will not act, that they can not get action out of them. What have you got to say about that?

Mr. LYMAN. I have no doubt that some of these national farm loan associations are not very responsive, but I know that a great many of them are. I know that 800 national farm loan associations are against this bill.

Mr. STRONG. How many are there?

Mr. LYMAN. There are 4,000. How do I know that 800 are against this bill? Because when the Farm Loan Board made its report about a year ago, that report contained practically everything that is in this bill, and Senator Fletcher sent out a questionnaire to these 4,000 national farm loan associations, asking what they thought of these various recommendations of the Farm Loan Board, and I think it was a very, very fine thing that in answer to a mimeograph questionnaire 800 of these associations should write back.

Mr. STRONG. Out of 4,000?

Mr. LYMAN. Out of 4,000. I think that is a higher percentage than any farm organizations could show, unless it is something analogous to ringing out a fire department. Eight hundred out of 4,000 is a very large percentage in answer to a mimeograph letter.

Mr. WINGO. How many of them approved it?

Mr. LYMAN. Mr. Flannagan has those letters up in his office, but I should say not over 20 approved any of the suggestions.

Mr. WINGO. And the rest of them did not answer?

Mr. LYMAN. The rest of them did not answer.

Mr. STRONG. Did that questionnaire go to the whole 4,000?

Mr. LYMAN. Yes.

Mr. STEVENSON. I would suggest this: We are considering here the question of taking from the people who are the owners of this institution its control?

Mr. LYMAN. Yes, sir.

Mr. STEVENSON. We are doing that on the theory that they will not exercise their control and exercise their rights. Up to this time they have never had an opportunity. There may be a necessity for it, and I am not committing myself to being against it, but up to this time they have never had that right. Now, the question with me is whether we shall go ahead and extinguish the right before we have ever given them a right to exercise it, and say we are extinguishing it because they have not done what we have not given them the power to do. That is the situation that is bothering me about that feature of it.

Mr. LYMAN. I think that is a very excellent point.

Mr. STEVENSON. When it comes down to the question of whether I will recognize a real right or refuse to recognize it my tendency is always to recognize control in the people who own the thing.

Mr. LYMAN. I wonder if the Farm Loan Board here at Washington had believed in the National Farm Loan Association, whether it would not have made some difference in the interest taken by these associations.

Mr. STEVENSON. There is one other question I want to ask. You stated that the Commercial Bank was pressing this. They and their employees would be the direct agents—the go-betweens—between the banks and the borrowers if the associations were eliminated?

Mr. LYMAN. Yes, sir.

Mr. STEVENSON. Has that got any connection with paragraph (d), page 15, section 5, of this bill? You will notice they have added there, "To liquidate indebtedness of the owner of the land mortgaged." I have had complaints by a good many banks who had lands mortgaged up to them that they would go ahead and help this fellow get a loan on his land, and found when they got it that they could not use it to pay their debts, because it did not correspond with the provisions of the law, which means that they will buy an automobile to-day and to-morrow they get a loan from the farm loan bank, being a debt of \$1,000 for the automobile, and take it and pay for the automobile.

Is that one reason that the commercial banks are behind this bill; do you think that has got anything to do with it?

Mr. LYMAN. I had not looked at it from that angle. I would not be surprised to find most anything in this bill. I think it is one of the most adroitly drawn bills I have seen in a long time.

Mr. STEVENSON. That would have been rather a persuasive reason to a banker, would it not?

Mr. LYMAN. Yes, sir.

Mr. STEAGALL. I feel sure of one strong, controlling thought with you in your attitude toward this legislation and toward this whole matter of farm-

loan credit is the purpose and hope of reducing the interest rate ultimately on agricultural credit?

Mr. LYMAN. Yes, sir.

Mr. STEAGALL. What do you think would be the best policy at that point—I mean with regard to its effect on continued reduction in the interest rate—in placing control in the hands of the Government or in the hands of the Farm Loan Board, as provided in this bill, as against taking over the system by the borrowers or owners?

Mr. LYMAN. I think that if the borrowers elected their permanent directors and get into this game and become a part of the system and not just merely figureheads that have to carry out orders from up here, their chance of getting this low interest rate is most excellent. I have no doubt that they will not get it if the Farm Loan Board permanently controls, and if the Farm Loan Board does not have a very beneficent attitude; in other words, if it does not change a whole lot, I do not believe that the farmer will get that low rate of interest.

Mr. STEAGALL. Do you not think the investor will have more confidence in the farm-loan system if this control retained in the hands of the Government initially linked onto the Government as it is, than if the borrowers take complete control of the organization?

Mr. LYMAN. No, sir; I do not. I have the opposite feeling, because these co-operative borrowers in the farm-loan associations come from a neighborhood. They know each other and they know of each other's moral worth. That is the bottom of all co-operative credit, whether personal or long-time credit. You will find that thing very ably set forth in the report of the American or United States commission that went abroad; and I think that the joint liability of these borrowers and these associations and the fact that the land banks are behind every loan will bring the lower rate of interest, than if the Government dominates, because if the Government has perpetual control what does that mean? That means that they are political appointees.

Mr. STEAGALL. Will not the United States to which you refer continue just the same under the policy of keeping control in the hands of the Federal board?

Mr. LYMAN. No, sir; I do not think the security is anywhere near as good. I think that I can show that to you in a statement which has been prepared right here. I want to read a paragraph from an analysis of this bill.

Mr. STEAGALL. Just a moment there. You are speaking now of the effect on the associations that will be brought about by the combined influences of this bill, are you not?

Mr. LYMAN. Yes.

Mr. STEAGALL. Well, I am talking solely with reference to the matter of control of the directors.

Mr. LYMAN. I have pointed out some of the things that will probably happen if the board gets permanent control. This bill provides centralized bond selling organization. There is nothing to prevent certain bonds being sold to the exclusion of other bonds in other land-bank districts. That is one thing that I think can happen under the bill as it is worded at the present time.

Mr. STRONG. Mr. Lyman, you started to refer to an analysis of the bill.

Mr. LYMAN. Yes. I am looking now for a part here which will answer his question.

Mr. STRONG. Who is that analysis by?

Mr. LYMAN. I have got several analyses here. One is by Mr. Flannagan, who is to speak and appear here against the bill, as I understand it.

Another is by Mr. Manson, the attorney for the national farm-loan associations, of which Mr. Flannagan is the general agent, and I suppose he will either file these with you or else get up himself and go into this whole matter.

Mr. STRONG. You started to read some paper. I just wondered if that was the one he had in his hand.

Mr. STEAGALL. If the gentlemen will permit me. I am not attempting to commit myself to the general or different provisions of this bill, nor to the point which I am asking you about. But the thought occurs to me that it might be well considered whether or not it is wise for the farmers of the country to be insisting upon separating themselves from the Government and Government control of this institution. But if I had a chance to form a business partnership with the Government, I would hook up with them, except as a Member of Congress, which everyone agrees is not a money-making proposition.

Mr. LYMAN. I have already pointed out that the Farm Loan Board has sole and final authority to pass upon the security of every loan.

Mr. STRONG. After the loan is practically made?

Mr. LYMAN. When the application comes in and the Farm Loan Board has its own appraisers out, it goes through the hands of those appraisers, who look over the land and make their report. The farm loan commissioner has authority now to turn down any application; is that not true, Mr. Flannagan?

Mr. FLANNAGAN. Only when offered as security for a bond issue.

Mr. LYMAN. That is what I am talking about.

Mr. STRONG. But they can make the loan and part with the money before the Farm Loan Board has any opportunity to condemn the loan; they only pass upon it when the loan presented is security for a bond issue?

Mr. FLANNAGAN. They can not make a loan unless the Government appraiser approves it.

Mr. STEVENSON. Does not the commissioner of the Farm Loan Board pass on the loans?

Mr. STRONG. Not until they are presented, as I understand it, as security for bond issues.

Mr. STEVENSON. Well, the statement was made here this morning that the Federal agency passed on loans. I did not take a look at the act—there are so many of those provisions.

Mr. STEAGALL. I really do not think he does.

Mr. STRONG. When the appraiser passes on it and it is approved by the farm loan associations and the banks.

Mr. STEVENSON. And the director of the bank?

Mr. STRONG. Yes.

Mr. STEAGALL. But the Farm Loan Board does determine the policy with reference to the issuance of bonds based on these securities?

Mr. LYMAN. That is what I intended to say.

Mr. WINGO. In other words, your banks pass upon the eligibility of the security sent in as collateral trust to support the bond issue?

Mr. LYMAN. That is right.

Mr. STEAGALL. And your point is they will continue to hold that to cover the loan in the hands of the borrower?

Mr. LYMAN. Certainly; regardless of the directorates of these 12 land banks.

Mr. WINGO. This thought occurs to me: I have doubted heretofore the wisdom of raising the maximum limit for two basic reasons. But in your fears, say, about the trend of the system, if the other provisions of the bill should be enacted, would not the raising of the maximum accentuate the very evil of which you complain? Would not the natural tendency of the men who have the viewpoint sincerely—and you say they have, which is contrary to the original philosophy—be to take prime loans represented by the larger loans and to have less enthusiasm for the loans down to the man in economic distress?

Mr. LYMAN. I can see where it might have some effect right at the start. I can see where a lot of the smaller prospective borrowers might have to wait just a little longer, because, of course, if a lot of these big loans were made that would swell the volume of the bonds that would have to be issued, but it seems to me that with the general public realizing the security back of these bonds and buying them as readily as they have bought them, that it will not be very long before we will catch up with the needs of these borrowers, whether the \$10,000 borrower or smaller borrower, or whether it is the \$25,000 borrower; and then as the other farmers whose loans have been made through private agencies fall due it seems to me that we will be able to catch up and supply these bonds just about as fast as the need arises. I will concede that for a while it might be possible that some of the smaller borrowers might not get their money just as quickly as they should, but I think that all the farms of this country that need to be mortgaged by the farmers can come in under this system in a very short time, because the public is educated to it, and the public is educated to the fact that eventually these 12 land banks are to be controlled by the borrowers. They have known that right along. It is in the law, and I do not suppose the Farm Loan Board has given any guarantees to the investing public that it is going to get this law changed. I do not believe they have gone that far. The buyers have bought these bonds seeing the law as it is, and they bought them at a premium, and they snapped them up in an hour or two during the sale of the last issue.

Mr. STRONG. Mr. Lyman, do you seriously believe that the investing public, the bond buyers, have known that these banks would eventually be taken over by the farm loan associations and controlled by the borrowers?

Mr. LYMAN. I certainly think that these big bond houses know exactly what they are doing. They certainly have known that, and the only possible thing would be that the Farm Loan Board has assured them that that thing shall never be operated?

Mr. STRONG. Why should the Farm Loan Board assure them that it shall never be operative—because they thought it would increase the value of the bonds by giving that assurance?

Mr. LYMAN. That is too absurd to think—

Mr. STRONG (interposing). You suggested it yourself.

Mr. LYMAN. I said it, but I did not suppose it would be taken seriously, because I can not conceive of a board which is sworn to do its duty and to administer the act that went through after as much travail as the Federal farm loan act going so far out of its province as to promise that the law would be changed. That is not my conception of the duties of a Government board, to guarantee that they are going to change a law which they are sworn to administer, and I think it would be rather an insult to the board if I advanced that idea seriously.

Mr. STRONG. You did not intend what you said to be taken seriously?

Mr. LYMAN. I raised that as the "horn of a dilemma."

Mr. STRONG. No insult was intended, Mr. Lyman, except I thought your testimony before this committee was intended to be taken seriously.

Mr. LYMAN. I simply said you would have to take one horn or the other. The bond buyers either know the law and have bought with their eyes open in contemplation that the directors will be elected by the majority of the farmers or else they have said, "We are not afraid that this control will ever be given to the stockholders."

Mr. STRONG. I just wondered if you thought the bond buyers had considered the various phases of this law or had ever read it?

Mr. LYMAN. I simply know the bond buyers have their eyes open; they are nobody's fool.

Mr. WINGO. May I ask a question?

Mr. STRONG. Certainly, Mr. Wingo.

Mr. WINGO. We were discussing the tendency that might arise in raising a maximum amount—with the banks and the agents to put in the major part of their efforts in connection with the larger the prime loans, to the neglect of the small loans.

There has been another objection that has been raised here. You understand, I am simply presenting the objection, and it does not mean that I endorse it. It has been suggested that even now the local associations not only are not active and do not meet, but that there is a tendency among a lot of them to say that they will oppose the granting of these smaller, less favorable loans, because of the cooperative liability; that they have an idea that the liability is greater than it is; and that in a given community those who want the prime loans will get together and organize an association, that they will take care of all the prime loans in the community and then they will lose interest and will not even meet to pass or consider some less favored farmer who wants to come in. That is one objection that has been raised to the local farm-loan association.

Now, if you increase the maximum, will you not add to that tendency, if it does exist, of having the large plantation owners in the Cotton Belt and the large wheat farmers in the wheat belt and the large corn growers in the Corn Belt just saying, "Well, we are in here in this local association, and we have a certain amount of liability as stockholders, and we do not want these little loans that are not gilt-edged from the standpoint of the bond purchasers to come in and interfere with us." Would not that have a tendency to prevent the working of your cooperative association?

Mr. LYMAN. Well, it might, and it might not.

Mr. WINGO. You catch the point I have in mind?

Mr. LYMAN. Yes. I am trying to answer it thoroughly. I can say that some of these farm-loan associations stand in need of the more varied business experience that some of the larger farmers of their communities have, who are now excluded from the affairs of those associations.

Cooperation, as you all know, means that usually a few people have to bear the brunt of work at the start; and we have got one or two outstanding people in every cooperative association, and usually, at the beginning at least, until the neighborhood gets educated to the need and value of cooperation, these few do more than their share in creating or maintaining interest. Some of those bigger farmers would do that; some would not, because the big farmers ordinarily are not so farmer-minded as the little farmer, although that is not always the case.

Mr. WINGO. You think, then, that instead of accentuating the difficulty the local community would have the benefit of the judgment and wisdom of these larger farmers?

Mr. LYMAN. I think it would about balance. I think one reason why the farm-loan associations have not functioned 100 per cent at first is the inherent difficulty of teaching cooperation. We have been at it a comparatively short time in this country. I think that it will help a whole lot if the Farm Loan Board would hammer home some of the value and benefit of cooperation.

Out at Madison, Wis., in 1914 or 1915—I do not remember just when it was—I recall the Farm Loan Board came out there, after the law had just been enacted, and I was representing the Equity Society in Wisconsin—as chairman of the State legislative committee of the Equity—and I attended this hearing, and I was very much pleased at what Commissioner Norris said at that time. He stated, in substance, "these farm-loan associations are going to become the nuclei for cooperative effort in other directions." It is my understanding that Mr. Quick, who was at that time a member of the Farm Loan Board, saw great opportunity to spread local cooperation through these national farm-loan associations.

I think that when members of the board openly declare down here at Washington, and have so declared several years that they are utterly opposed to the national farm loan associations, it is not giving the thing a right chance, because if they are utterly opposed to it and have pledged themselves either to eliminate these cooperative associations or else resign from the board, I do not think that they are giving the farmers of this country an opportunity to function as cooperators in mortgage credit.

There is another thing: A lot of the local bankers, some lawyers, a lot of country agents have been acting as local secretaries. Some of these people are perfectly splendid; the majority of them are taking their cue from down here at Washington.

Up in New England the county agents are not giving much cooperation. There are a lot of them there that act as secretary-treasurers. You will find in your own State of Kansas, I think if you look into the matter, that many of these secretary-treasurer are not farmers, did not help to get the farm loan act passed, but we were opposed to the farm loan act at the time, and that finally, when they saw the thing was here they adopted that celebrated plan that a certain gentleman has adopted to "bore from within." There is absolutely no question about that, and with some of the members of the board openly declaring down here in Washington that they would eliminate the national farm loan associations or resign, I say that they have not given a fair chance to these associations.

Mr. STEVENSON. We were not aware that such declarations had been made. Do you mean to say that the board—

Mr. LYMAN (interposing). I mean to say some members of the board.

Mr. STRONG. What members?

Mr. LYMAN. Judge Lobdell is one of them. Judge Lobdell is the farm loan commissioner and the head of the system. Judge Strong told me that he did not know Judge Lobdell, only had met him two or three times; he said he belonged to a different wing of the party. I said: "What does that mean; the progressive wing?" "Yes."

Mr. STEAGALL. I did not know that party had a wing.

Mr. STRONG. I do not object to your quoting me if you quote me correctly.

Mr. LYMAN. I want to do it most sincerely.

Mr. STRONG. You certainly are not doing it.

Mr. LYMAN. I most humbly apologize with a smile on my face if you have been misquoted by me.

Mr. STRONG. I certainly have.

Mr. STEVENSON. Mr. Lyman, you have gone pretty thoroughly over this bill. I want to ask you one or two questions about these new organizations. In

the first place, do you not think the central selling system for selling all the bonds would be some improvement over the present method of it?

Mr. LYMAN. That is what we have had up to the present time, Congressman, because these 12 land banks have surrendered voluntarily their right to sell these bonds.

Mr. STEVENSON. That seemed to become necessary in order to get the bonds selling, did it not?

Mr. LYMAN. I do not know the reasons—I think not. I think that these bonds should have become popularized to a greater extent right out in the local communities.

Here is a point to bring to your attention: The law provides that a farmer who wants to get a loan either has the right to take the money and mortgage his farm, or else take the bonds and find his buyer—that is specific in the law. I do not think there is any question about it being specifically in the law.

Mr. STEVENSON. Your idea would be to let him take the bond and sell it? Mr. LYMAN. I do not know how general that should be, but I do know that we have received letters from a number of borrowers who have said in substance that they have had a chance to take the bonds and find buyers right next door to them in the neighborhood, some wealthy farmer, perhaps, and the bond has by rulings absolutely prevented that.

I think that a great many of these land-bank districts could market their bonds. I can see that a centralized selling agency might be created—I would not be so afraid of it if it was not for the fact that this bond-selling arrangement is going to be run by the 12 presidents of the 12 land banks.

Remember that under this bill, in case of a tie, the Farm Loan Commissioner appoints the seventh member, and he is to be a president of the land bank.

Mr. COREY. It does not say that.

Mr. LYMAN. It says "Chairman of the board." I thought that in reality meant the same thing.

But, in any event, I do not think there is any question in the world but what the board fully expects to dominate these 12 land banks. The bill, I think, is drawn for that purpose. That means that the president naturally will be selected by the four directors who will be appointed by the board. That means that the 12 men who are running these bond-selling agencies are board appointees.

Mr. STEAGALL. Let me ask you a question right there. You say there are some of these banks that market their bonds to some extent at least in their own premises. Would not that put at a disadvantage the banks who can not do that? This being a cooperative system, the bonds of each bank being responsible for the bonds of the other banks, is it not best to have a central selling agency, so that any bank which might be so fortunately situated as some of the others, gets the advantage of the superior opportunities which any other bank might have in marketing its securities. Is not that one of the great benefits of this whole system?

Mr. LYMAN. I am not willing to say offhand that there would be any benefit in it whatsoever; I am not willing to say that there would not be some benefit. Observe that the joint-stock land banks market their own bonds. I think if the farmer or other, whether a neighbor or a townsman, who is not in debt and who has money to invest in farm-loan bonds should be allowed to buy them in the way I have referred to. I think it is a good thing to get these bonds spread out through the community. But, assuming the fact, I should say yes in answer to your question, which I am unwilling to do, but for the sake of argument I will. I say, then, if that is the case, these 12 men who run this bond-selling arrangement should not be men who are controlled by the Farm Loan Board.

Mr. STEAGALL. I am not attempting by my question to prejudice the matter under discussion at all. As a matter of fact, I think you are right when you say the bonds are really being marketed now by practically one agent, which, of course, could be continued without the change in the law, and the point I am raising is not inclusive of that matter at all. But one of the advantages of this whole scheme that has appealed to me always has been that it gives those sections of the country where the supply of money is scarce and credit is scant an opportunity to go into a general scheme with the other sections of the country that are more fortunate.

Mr. LYMAN. I am aware of that one good argument in favor of a centralized bond arrangement. I understand that certain States have passed laws which

give a preference to the bonds issued in their States. I can see how if New York State, Massachusetts, Illinois, and so on pass laws like that it may make it more difficult to sell certain bonds based on mortgages out in the Western or some Southern States where there is not so much capital. But is there anything in this bill which commands or which explicitly says that this centralized agency shall sell this general issue of bonds absolutely pro rata, according to the applications on file in these 12 different land banks; is there anything like that in there?

Mr. COREY. It amounts to that.

Mr. LYMAN. It amounts to that?

Mr. COREY. Yes.

Mr. LYMAN. I would want to be very sure.

Mr. STEVENSON. I want to get my finger on that very feature.

Mr. COREY. It amounts to that, Mr. Stevenson, in that the board is empowered to approve securities.

Mr. STEVENSON (reading): "When any Federal land bank shall desire to make an issue of farm-loan bonds and shall make application to the Farm Loan Board for the approval of such issue, as in this act provided, it shall transmit copy of such application to the Central Federal Land Bank, with a request to said bank to make such issue on its behalf when the same has been approved by the Federal Farm Loan Board."

"When an issue of farm-loan bonds by any Federal land bank has been approved by the Federal Farm Loan Board it shall certify such approval to the Central Federal Land Bank, which shall thereupon be fully authorized to issue such bonds."

Mr. STRONG. They have that right to approve or not approve.

Mr. STEVENSON. I know they do, but when you go to commit to legalized stockholders organizations with very great powers, we want to know that it is going to have to do something. Of course, the approval of an issue depends on the solvency of the securities. But the requirement that it be approved pro rata, according to its securities, with all others is something that has not been written in here and can be written.

Mr. STEAGALL. Certainly, and that preserves the thing I was talking about just now, of keeping their rights upon an equal basis.

Mr. STEVENSON. There is another thing I want to ask about this central agency, and I consider it about the most desirable thing if it can be properly safeguarded that is in this bill: What is going to become of the stock of that concern? Is it going to be held only by the farm-loan banks or is it going to be allowed to get on the market and be held by Tom, Dick, and Harry?

Mr. FLANNAGAN. The Federal land banks are the exclusive stockholders.

Mr. COOPER. The stock will be owned by the Federal land banks.

Mr. STEVENSON (reading): "The names of the Federal land banks uniting to form the corporation and the amount of stock subscribed by each.

"The amount of its initial capital stock, which shall be not less than \$500 nor more than \$1,000,000, divided into shares of \$100 each; *Provided*, That such corporation in its articles of association make provision for the increase of its capital stock from time to time in proportion to the increase of the capital stock of the several subscribing banks held and owned by national farm-loan associations and borrowers."

And then it provides that the presidents of the banks shall be the directors, with the exception of one, who shall be elected from the outside.

Mr. COOPER. May.

Mr. STEVENSON. And then provides, on page 10: "To prescribe, by its board of directors, subject to the supervision and regulation of the Federal Farm Loan Board, by-laws not inconsistent with law regulating the manner in which its stock shall be transferred, its officers elected or appointed, its property transferred, its general business conducted," and so on.

You provide there for the transfer of stock. If the land banks are to be the sole owners, and each one is to take and hold stock in proportion to its stock, what are you providing for the transfer of the stock for? There is absolutely nothing which provides that the stock must stay in the land banks.

Mr. COOPER. Assuming that the Federal land bank would subscribe to the capital according to the gross assets of each bank, and that relation, of course, might change from time to time and it would be necessary for one bank to transfer stock to another bank.

Mr. STEVENSON. Certainly we do not propose for this stock to get into private hands, and there certainly ought to be something to prevent that.

There is another thing on page 11, which says: "To borrow money, give security therefor, and pay interest thereon. Shareholders of such corporations shall be held individually responsible, equally and ratably, and not one for the other, for all contracts, debts, and engagements of such corporation to the extent of the amount of stock owned by them at the par value thereof, in addition to the amount paid in and represented by their shares." That is, dealing with the shareholders, and says that they shall be individually responsible. You say the shareholders are only to be the banks?

Mr. COOPER. Yes, sir.

Mr. STEVENSON. Let us look at another provision down here [reading]: "Each Federal land bank subscribing to the stock of the central Federal land bank shall by appropriate resolution of its board of directors, spread upon its minutes, agree to become liable for and to pay, upon demand, any matured farm-loan bond issued by the central Federal land bank or any past due interest on any such bond." That is not for its own and not merely ratably for its own, but for all. If there is no difference between shareholders, you say in one place that the shareholders shall only be responsible ratably and not one for another, and here you say for the whole thing.

Mr. COOPER. Interest on the bonds issued by the central agency.

Mr. STEVENSON. Principal and interest.

Mr. COOPER. That is the law now.

Mr. STEVENSON. I am talking about this proposed bill.

Mr. WINGO. Mr. Stevenson, if you will permit a suggestion, I think that the paragraph you have just read might well be the first part of the paragraph that you read awhile ago; in other words, the paragraph you just read fixes liability. The first paragraph you read on page 11, line 22, fixes the measure and limit of liability.

Mr. STEVENSON. But this other one is entirely inconsistent with that, because it makes the liability absolutely for every farmer loan in the system.

Mr. WINGO. If after the language on page 12, lines 19 to 24, you follow that paragraph with this "but the shareholders of such corporation shall be held individually responsible equally, and ratably, and not one for another, for all contracts, debts, and engagements of such corporation to the extent of the amount of stock owned by them at the par value thereof, in addition to the amount paid in and represented by their shares."

In other words, it is a question of phraseology. You want to limit that liability by the well-known 100 per cent liability rule—I assume that is what the draftsman intended.

Mr. STEVENSON. On page 13, and then a proper paragraph that should go at the bottom of page 12: "Each Federal land bank subscribing to the stock of the central Federal land bank shall by appropriate resolution of its board of directors, spread upon its minutes, agree to become liable for and to pay, upon demand, any matured farm-loan bond issued by the central Federal land bank or any past due interest on any such bond." Then, if it does not pay, all the others have agreed to pay the whole thing.

Mr. WINGO. I think there could be considerable improvement in the expression of what you do. You have something there which might cause confusion. Take those three paragraphs, Mr. Stevenson, that Mr. Lyman has referred to. Personally, my impression has been against this central land bank, but I think you and I will both agree, in theory—it may be its practical application would not justify it—but in theory a joint selling agency would be of benefit, would it not, to the weaker banks, would it not? For illustration, let me give you this, so that you can catch what I am driving at: When they organized land bank districts it was urged that by including Arkansas, which is a newer State and its agriculture has not developed to that high state that is found in Illinois, that thereby Arkansas was guaranteed a standing in the bond market that bonds issued upon Illinois land, which was regarded as old-settled, rich, corn-belt land equal in value to any in the United States, and if you have a general selling agency whereby you will have the bonds of the system and not of any one bank, then you put the credit of the entire system back of each and every bank, do you not?

Mr. LYMAN. Yes, sir.

Mr. WINGO. In theory, is not that a wise thing?

Mr. LYMAN. Yes, sir.

Mr. WINGO. Is not the real danger coming from where you will put that machinery by which you will exercise that central issue?

Mr. LYMAN. If the law specifically said that the prorata of applications of each land bank district is to be taken care of in each general bond issue and if the presidents of these banks were responsive to the borrowers I can see where the thing might work out all right. Neither one of those things is in here as I see it.

Mr. WINGO. It is a matter of detail.

Mr. LYMAN. It is a very important thing.

Mr. WINGO. That should come regardless of whether you have the present plan which is practically the same as these, although I differ with you—my question meant this, that it was not necessary to set up machinery, that it was perfectly feasible to have a central agency of the Farm Loan Board, putting one man in at the head of the bond division.

Mr. LYMAN. That is my view right now and it has been all the time.

Mr. WINGO. And let you organize your farm loan board into divisions just like business concerns would, for example, a manufacturing concern. You will have one farm loan board member that will be head of the division of bonds, another one the head of the division of field forces and another the head of this, that and the other. My idea would be then that it was not necessary to have a central organization newly created, but it was perfectly feasible to get all the benefits of a joint issue, with a provision to see that there was proper distribution of the proceeds, and yet have that inside the board without a whole lot of new machinery; and then there would not be any question arise as to whether the judgment of the board was paramount to a separate bank organization. Then, also, there would not be any question arise as to what was the extent of the control of the board over your central banks. In other words, you would avoid a new, separate, distinct organization and controversy that is bound to occur in time, and might arise the opposition of those who might not understand the system as represented by the hangover from the central bank idea. In other words, is it not possible to get all the benefits of a central corporation with proper provision for distribution of proceeds, etc.?

Mr. LYMAN. I think you are right. I feel that the board should have created or helped to create the borrower's own bond-selling agency, not dependent upon the whims and caprices of these big bond-selling houses that make a great deal more—probably five or ten times more—selling other issues. They have waited and waited to let the investors buy other kinds of bonds where the security is not nearly so good, but when they did issue these farm-loan bonds they found they were snapped up at a premium at a very short time.

I think that the safe thing is for the farmers in these land banks to control, and if temporarily a man who is more responsive to the board is elected president that is the farmers' fault. I have no fault to find with them even if they allow that, and they can delegate voluntarily their right as they have now, you understand, to the board to sell these bonds. The law now says, "Each land bank can sell its own bonds." But if they should have any trouble in marketing their bonds through the Farm Loan Board, which I do not think they would have after they get control of the land banks, then there would not be anything in the law to prevent them from forming a voluntary association to market their bonds, or they could form a central voluntary central agency to sell the bonds for themselves. There is nothing in the law, as I understand it, that gives the Farm Loan Board the authority to sell these bonds; it has simply been a voluntary arrangement.

Mr. WINGO. This suggestion has been made, and I want to get your judgment on it, that primarily the borrowers—the farmers of the United States—are interested in a sane, intelligent, and business-like handling of this system, in that, that would guarantee the confidence of the investing public in buying the bonds and secure a steady, continuous market for the bonds, and that in order that there should be a provision for the organization and the control of the system that would meet some emergency that might arise, that in the minds of the investing public might discredit the issue. For illustration, this has been suggested: That in some portions of the country at the present time there are some men, however sincere they may be and however wise they may be, the investing public do not believe their theories are sound; and if it were possible for leaders of that kind of men to sweep the country and get control of a system might discredit it, however honest their efforts might be.

Then, another situation might arise that ought to be guarded against. It has been suggested that selfish men, recognizing the advantage of controlling the system, the benefits that might come from a selfish control, might go to these farmer stockholders who are busy each day, who do not study the intricate

details of organization and do not attempt to contemplate the philosophy of the system and might not attend the annual meeting; that those selfish men might organize and get control of the organizations really to the detriment of the organizations.

Mr. LYMAN. I attempted to answer that before adjournment at noon, when I cited the case that is instanced by the board in this letter I referred to, which has given currency to the thought, that some wild-eyed fellow may say he is going to run on the ticket and that he is not going to let these mortgages be foreclosed; and I answered by saying that in practice the three directors that the board appoints will really dominate the land banks. I do not think there is any question about that. I think that these men in these banks are pretty good men, and I think they have done pretty well with the system in a great many of the banks, and I think if the farmers had the right of election given to them, as the law intends, that the personnel would be pretty much the same. I do not think that the borrowers want to wreck their own system.

Mr. WINGO. Of course they would not.

Mr. LYMAN. I think they would be conservative. I think these men would practically dominate, except in such cases where the borrowers felt that they had very serious reasons to disregard the viewpoint of the board's appointees; then I think there might be some house cleaning.

Mr. STEVENSON. The house cleaning was illustrated by the insurance companies 20 years ago, when they turned out McCall and a whole lot of millionaire bosses of the insurance companies in New York. Those were splendidly run institutions, but the stockholders were having nothing to do with them; and you remember they had a house cleaning up there which has increased the dividends that insurance-policy holders have received since very materially. So that house cleaning from down at the ground is not a bad thing once in awhile.

Mr. LYMAN. I think that house cleaning is a good thing once in awhile, not only in a thing like this—I mean, if there is any reason for it. To be more accurate, what I think is that the opportunity for house cleaning is a good thing. It is a very necessary safeguard. I think the thing that exists in most every civilized country in the world, the right of interpellation by Congress of Cabinet or other administrative officers, and the right to vote a lack of confidence, is a good thing, and that the people through their legislative representatives ought to have more of the opportunity to exact an accountability.

Mr. WINGO. We do not have this in this country. If Congressmen dare to question Cabinet members it is an outrage.

Mr. LYMAN. It is an outrage, but we are going to have it some time, and I think there ought to be a spirit of give and take, that when a man honestly opposes a board, I do not think it ought to be held up as a case of lese majesty; I think that the people who have the interest of the farm-loan system at heart should have a right to protest, and I believe these farm-loan associations ought to have their national representatives and be represented down here. But the Farm Loan Board has prevented that largely. Only a couple of hundred or so of the 4,000 farm-loan associations have been allowed to organize voluntarily for the purpose of having representation here at Washington.

Mr. WINGO. Before you get away from that other point, the answer you made to that was that in the last analyses the three men selected by the board would be conservative, practical men, and their influence would be large?

Mr. LYMAN. Yes, sir.

Mr. WINGO. Then, you also suggested that the board controls the appointment of the appraisers?

Mr. LYMAN. Yes, sir.

Mr. WINGO. And that that would guard against improvident loans, and that as a guard against improvident loans the farm-loan commissioner has to pass on these loans after they are made but before they can be used as a basis of bond issues?

Mr. LYMAN. Yes, sir.

Mr. WINGO. Are those the only answers you can think of to this argument, and do you think those balance the theories that have been expressed on the other side?

Mr. LYMAN. I do not see any difference between the borrowers who are stockholders managing affairs, at least having two-thirds of the directors, and the regular banks of the country who may be large borrowers and owing the gen-

eral public who are depositors up to perhaps twenty times their capital stock. The only difference is that in case of the farm-land banks the Government has three directors out of nine, while in the case of the State or National banks these huge borrowers—the banks' stockholders—elect all their directors. I think the security of a farm-loan bond is much better than the security of an ordinary bank.

Mr. WINGO. You think the Government having three members on the board will prevent loss of confidence in the bank?

Mr. LYMAN. I do not think there is any question about it; and, as I have said, the bonds have been sold right along in contemplation that this permanent management would go into effect.

Mr. STRONG. Mr. LYMAN, I was called out this morning when you began your statement, and I do not know just all you have stated, but you hold some position, do you not, in the organization of Federal Farm Loan Associations?

Mr. LYMAN. No, sir; except a very earnest friend to wish for their welfare and hoping they will get thoroughly aroused and that they will be down here in protest of this bill.

Mr. STRONG. There is such an association?

Mr. LYMAN. Yes.

Mr. STRONG. That was an association formed when?

Mr. LYMAN. That was an organization initiated two years ago last summer, sir.

Mr. STRONG. And that is an association of the farm-loan associations?

Mr. LYMAN. Yes, sir.

Mr. STRONG. And national associations?

Mr. LYMAN. Some of the braver ones.

Mr. STRONG. You are interested as a friend in their behalf?

Mr. LYMAN. Very much, indeed.

Mr. STRONG. There is a controversy going on between that association and the Federal Farm Loan Board, is there not?

Mr. LYMAN. Just such a controversy, if you wish to call it that, as the organization that I represent is waging. We are opposed to this attempt to destroy the cooperative features of the farm loan act, and that is what the cooperative farm-loan federation you refer to is opposed to.

Mr. STRONG. How many farm-loan associations belong to this national association?

Mr. LYMAN. I think about 300 of them, and I will be glad to tell you why there are not more.

Mr. STRONG. I am trying to get some information. If you want to add information, go ahead.

Mr. LYMAN. The reason, I believe, there are no more of these associations is because of the fact that the Farm Loan Board does not want a voluntary organization represented down here at Washington to appear before committees in Congress and to defend the law that now exists. It seems to me that the burden of proof is always on those who are trying to change something. I pointed out the very liberal atmosphere which existed at the time of the passage of this act, which is not so liberal to-day, I think.

The burden of proof seems to be on those who would change it. The Farm Loan Board wants to change it. A number of associations are banded together who do not want it changed. They think the law is good enough in most respects, although I think they favor the increase in the loan limit.

The reason why there are not more of the cooperative loan associations in the Federation of National Farm Loan Associations is that the Farm Loan Board does not want such an organization, and the Farm Loan Board went and got a ruling from its solicitor, Judge Becker, I believe, who gave his opinion that it was improper for the directors of the National Farm Loan Associations to raise any money to support a national office; whereupon the friends of this movement went to former Secretary McAdoo, who was the first chairman ex officio of the Federal Farm Loan Board. Mr. McAdoo gave, without any charge, I am glad to say, a very comprehensive opinion—bear in mind, he was the first chairman ex officio of the Farm Loan Board—gave it on the stationery of McAdoo, Cotton & Franklin, New York City, and the gist of it was that it was not only legal for the directors of these associations to appropriate \$10 a year in order to have national representation of their own at Washington, but that it was most advisable for them to do so.

At this point I would be more than pleased to have inserted in the record the opinion of the Hon. Mr. McAdoo, if there is no objection from the committee.

Mr. STRONG. Is there any objection on the part of the committee?

Mr. WINGO. Not at all.

Mr. STRONG. There seems to be no objection.

(The opinion of Mr. McAdoo follows:)

POWERS OF NATIONAL FARM LOAN ASSOCIATIONS TO JOIN A COOPERATIVE ORGANIZATION.

NEW YORK, December 29, 1920.

DEAR SIR: You have asked my opinion as to whether or not the national farm loan associations incorporated under the farm loan act have the power to become members of a cooperative association, known as the National Union of Farm Loan Associations, involving a payment of \$10 membership fee. I understand that such an association is considered desirable for the following general purposes: To protect the member associations; to advance and conserve the interests of the borrowers; to give national voice and weight to their just demands; to establish, maintain, and equip headquarters at Washington, with representatives who shall appear when necessary before congressional committees, governmental boards, and commissions; to carry on educational work with the membership and with the public; and generally to do everything necessary for the protection and general welfare of the associations.

I also understand that many of the associations formed under the farm loan act desire to join such an organization, but that the Farm Loan Board doubts the power of the associations to do so, and is strengthened in this doubt by an opinion of the Solicitor for the Treasury Department to the effect that such power to cooperate is not authorized by the provisions of the farm loan act, and is therefore beyond the powers of the associations, and further that the payment of the membership fee of \$10 is such a willful misapplication of the funds of the associations as to subject the directors to the penalties prescribed by section 31 of the farm loan act.

It is true, as stated by the Solicitor for the Treasury Department, that there is no express provision in the farm loan act which authorized national farm-loan associations to join a cooperative association of this nature or to disburse funds for that purpose. The organization of such corporations and the control of their funds as prescribed in the act may be briefly summarized as follows:

Farm-loan associations are organized by articles of association which specify in general terms the object for which the association is formed and the territory within which its operations are to be carried on. It is expressly provided that such articles of association may contain any other provisions not inconsistent with law which the association may see fit to adopt for the regulation of its business and the conduct of its affairs. (Sec. 7.)

The associations are organized subject to the requirements and conditions specified in section 7 and in section 4 of the act so far as the same may be applicable. (Sec. 7.) Section 4 of the act relating to the organization of fore applicable to farm-loan associations:

"To exercise by its board of directors or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business herein described."

The Farm Loan Board is given power to require reports and statements of condition of the associations and to exercise general supervisory authority over them. (Sec. 17.)

The associations are required to carry semiannually to reserve account an amount not less than 10 per cent of their net earnings until such reserve account shall show a credit balance equal to 20 per cent of their outstanding capital stock. Thereafter the associations may at their discretion, after certain deductions, declare a dividend to shareholders out of the balance of the net earnings. (Sec. 24.)

The board of directors of such associations are authorized to set aside such amounts from their funds as they shall deem requisite for the payment of the salaries of the officers and "for other expenses of said associations." (Sec. 7.)

It is made an offense, punishable as described in the act, to embezzle, abstract, or willfully misapply any funds in the possession of any farm-loan association. (Sec. 31.)

Generally speaking, the rule of law as to the powers of a corporation is as stated in the opinion of the Solicitor for the Treasury Department, namely, that the extent of such powers is limited by the charter of the corporation which in turn is subject to the limitations prescribed in the act pursuant to which the charter is granted. It should be noted, however, that this rule applies to the express powers granted to such a corporation and that there are numerous powers incidental to the exercise of such express powers which are implied as a matter of law. This qualification is clearly stated in the case of *Railway Companies v. Keokuk Bridge Co.*, 131 U. S. 371. In this decision the Supreme Court said (p. 385):

"But while the charter of a corporation, read in connection with the general laws applicable to it, is the measure of its powers, and a contract manifestly beyond those powers will not sustain an action against the corporation, yet whatever under the charter and other general laws, reasonably construed, may fairly be regarded as incidental to the objects for which the corporation is created is not to be taken as prohibited."

Even considering the farm-loan associations as banking corporations, whose implied powers are more rigidly construed, it is nevertheless true that such powers exist to a limited extent. In *Clement National Bank v. Vermont*, 231 U. S. 120, the Supreme Court, referring to national banks, said:

"The Federal statutes relative to national banks constitute the measure of the authority of such corporations, and they can not rightfully exercise any powers except those expressly granted or which are incidental to carrying on the business for which they are established. * * * These incidental powers are such 'as are required to meet all the legitimate demands of the authorized business and to enable a bank to conduct its affairs within the general scope of its charter safely and prudently.'"

It was held in this case that a bank having the right to receive deposits possessed the additional right to pay for its depositors the amount of State taxes imposed on such deposits.

It is apparent from these decisions that farm-loan associations organized under the farm loan act must have implied powers not found in the act incidental both to their existence and to the main purposes for which they were formed. This conclusion is strengthened by the provisions of the act itself. By section 7 it is provided that farm-loan associations "shall organize subject to the requirements and the conditions specified in this section and in section 4 of this act so far as the same may be applicable." Section 4 of the act relating to the organization of the Federal land banks provides that among their powers are the following:

"To exercise by its board of directors or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business herein described."

It is apparent, therefore, that farm-loan associations, equally with the Federal land banks have certain incidental powers not expressly referred to in the act.

It remains only to consider whether or not the action of the farm loan associations, in cooperating to form or join the National Union of Farm Loan Associations for the purposes expressed above, is within such implied powers.

It is not required that such powers shall be necessary in the sense that they are indispensable. It is sufficient if they are reasonably appropriate and convenient to the express powers. In my opinion the power of the farm loan associations to join the National Union of Farm Loan Associations for the purposes expressed is reasonably appropriate and convenient to the exercise of their express powers and incidental to their existence.

These associations, as authorized by the farm loan act, play an important and necessary part in the machinery therein provided. They furnish the cooperative borrowing feature of the act. Ten or more persons who are the owners or about to become the owners of farm land may unite to form the associations which, when duly chartered, are authorized to receive from the Federal land bank of the district sums to be loaned to its members pursuant to the act. They form an important link between the lending bank and the individual borrowers. In addition they have the powers granted by section 11 of the act to induce mortgages, to acquire and dispose of such property as may be convenient for the transaction of their business, and to issue certificates of deposit of current funds. Their members have, of course, an interest in seeing that their rights receive adequate protection. The interests of such associations can be most properly presented by their authorized agents,

who, in turn, should be representative of the associations as a class. This can best be accomplished through cooperation.

Moreover, the advantages of cooperation in order to further the legitimate interests of all classes similarly situated are too evident at this period of our economic affairs to require detailed discussion. It is sufficient to call attention to the practice, which prevails generally throughout the United States, of forming cooperative associations in almost every class of business. Notable instances are the American Bankers' Association (of which many national banks are members), the Association of Joint Stock Land Banks, the various merchants' and manufacturers' associations and other cooperative organizations too numerous to mention. It can no longer be doubted that the formation of cooperative organization is, from a business and economic standpoint, a distinct benefit to the individual or corporate business of the members who make up the association as well as of great value educationally.

Another important reason for the formation of this association consists in the distribution of statistics and information among the various associations, and their large membership of individual farmers so that they can know the work of others who are concerned with similar problems. This feature is likely to prove of considerable benefit to the members of such an association.

I am therefore of the opinion that the national farm loan associations organized under the farm loan act have as a power incident to their existence and to the carrying out of the purposes for which they were formed the right to join a cooperative association for their mutual protection and for the furtherance of their respective business interests. This power is not prohibited by the provisions of the farm loan act which give the Farm Loan Board general supervisory power over the farm loan associations. This supervision is to be exercised for the protection of the Government, and, in a sense, of the associations themselves, but do not prevent voluntary action by the associations looking toward the advancement of their own interests.

If the associations have the right to join this cooperative organization, it follows that they have an equal right to contribute toward its support. The only limitation in the act as to the use of the funds of the associations is contained in section 24, which provides for the reserve account. When this reserve account shows the proper credit balance and after making the deductions provided for in said section, the association is permitted to declare dividends to its shareholders. By no implication can this section be construed to prevent the use of corporate funds for the purpose of supporting and carrying on a central organization. Moreover, the directors are expressly given the right by section 7 to set aside funds "for other expenses" of the association.

The membership fee should not, however, be paid until after each association has set up in its reserve account the proper credit balance provided for in section 24 of the act.

The provisions of section 31, prescribing penalties for willful misapplication of the funds of an association, would not, of course, apply to an expenditure made in good faith by the directors in the exercise of an honest discretion that it was for the best interests of the association.

Very truly yours,

W. G. McADOO.

NATIONAL UNION OF FARM LOAN ASSOCIATIONS,

1731 I Street NW, Washington, D. C.

MR. LYMAN. After that, of course, there was a new Secretary of the Treasury and there was also an Attorney General. So the board, in order to offset the effect of Mr. McAdoo's opinion, took up the Judge Becker ruling and took it over to Attorney General Palmer, and I suppose in the most perfunctory way—because I am informed it is very customary for these solicitors to give the ruling that the department under them wants—Mr. Palmer O. K'd the opinion of Judge Becker; and he went a little further. He said it was not only wrong for these directors of national farm-loan associations to subscribe the paltry sum of \$10 a year in order to defend their rights and protect the law as it now is, but he said that it was also illegal for the stockholders meeting in annual session to vote \$10.

In that connection, I would like to say that some very elaborate entertainments seem to have been given by some of the Federal land banks. They have called in the secretary-treasurers from all over their districts in particular States, and they have paid their traveling expenses, and they have given them banquets or barbecues, and they have spent a great deal of money in order

to bring in these secretary-treasurers close to the administration for "education," for discipline, or whatever it may be. But the rulings are that it is illegal for the stockholders to vote this money.

Now, Mr. McAdoo, associated with Mr. Joseph Cotton, who also is a very astute lawyer, gave an opinion that it was legal; he also said it was most advisable to do it.

Now, then, the Farm Loan Board, of course, gets out these mimeograph letters very nicely and sends them out under frank to the 300 associations that put in \$10 apiece, and then they found out who these associations were and they began to bear down on them.

I would like to have all the committee get this: The associations pay \$10, or the stockholders pay it, and the secretary-treasurers were informed, gentlemen, that if they did not refund the \$10 that no loans would be made to those associations. I think that is one of the most high-handed acts that has ever been attempted by any board down here at Washington.

Mr. STEVENSON. Out of what fund do they pay the \$10?

Mr. LYMAN. Out of the funds of the association, which the law specifically says they may use. Mr. Flannagan is familiar with this law from A to Z, and I would like Mr. Flannagan to point out in the farm loan act the part which Mr. McAdoo called attention to, which does give the farm-loan associations in certain instances the right.

I think I have answered pretty fairly the questions.

Mr. STEVENSON. I suppose Mr. Flannagan in his statement will give us that. Mr. STRONG. There seems to be a difference in the legal opinion of Mr. McAdoo and Mr. Palmer, and you agree with Mr. McAdoo?

Mr. LYMAN. I agree with Mr. McAdoo on that matter.

Mr. FLANNAGAN. I will say you have already agreed that Mr. McAdoo's opinion will be put in. What is the use of my referring to it?

Mr. LYMAN. This will be a long hearing no doubt, and some of these gentlemen here will not happen to come across that particular part, so please put it in if you can find it.

Mr. STRONG. It will be well, for the information of the committee, to point out where in the law the authority is granted.

Mr. WINGO. What is that about the "barbecue"?

Mr. LYMAN. I said banquets, or barbecues, or something of that nature—elaborate entertainments—given to secretary-treasurers. I believe it was down in Texas they did that; the land bank controlled by the board paid their expenses.

Mr. WINGO. I was addressing myself to the chairman. He said he would like to have the law pointed out to justify it, and I asked him—

Mr. STRONG. No; it is a reference which Mr. Lyman made.

Mr. LYMAN. It is the provision in the law there, which I think everybody has a right to assume would cover the right to pay \$10 a year for such a purpose.

The American Bankers' Association, which is a very strong, active association, a very good organization—how do they support themselves? The banks, of course, the individual banks, pay something to belong to the American Bankers' Association. Why does not the Comptroller of the Currency see something in the national bank law which would prevent national banks from belonging to the American Bankers' Association? The same reasons which impelled the national bankers to have a national association, which, you know, is very powerful and have a very great influence and weight down here—those same reasons impelled the farm-loan associations, that saw what was coming, to say, "We ought to have a voluntary organization, a national organization, to represent us, to work with the board whenever we can, to support the board, to defend the law as it now is, and to oppose the board when they are trying to knock out the cooperative part of our law."

Mr. STEVENSON. Now, let us get that law.

Mr. FLANNAGAN. The extract of the law to which Mr. Lyman referred is in the seventh section, on page 9, of the annotated copy of the Federal farm loan act, and reads as follows:

"All reasonable expenses for the secretary-treasurer, the loans committee, and other officers and agents of the national farm loan associations and the salary of the secretary-treasurer shall be paid from the general funds of the associations; and the board of directors is authorized to set aside such sums as it shall deem requisite for that purpose and for other expenses of said association."

Mr. STEVENSON. "Or for other expenses of the associations"—are they the words upon which the disbursement is based?

Mr. FLANNAGAN. Yes.

Mr. STRONG. The fact is, Mr. McAdoo and Mr. Palmer disagreed.

Mr. WINGO. I think that disagreement is apt to affect this bill very seriously. [Laughter.]

Mr. LYMAN. May I ask a question for information?

Mr. STRONG. Of course, one of the two gentlemen named was the Attorney General at the time, and I suppose his opinion is entitled to be taken with more weight for that reason.

Mr. LYMAN. May I ask a question for information, because of the point I would like to bring out? What percentage of the amount of the loan does the present secretary-treasurer get? What per cent for making the loan?

Mr. FLANNAGAN. Ask Governor Cooper. I think it is 1 per cent.

Mr. COOPER. The secretary-treasurer does not get anything. The associations get an exceeding 1 per cent, and we do not approve any plan which gives the secretary-treasurer more than three-fourths of that.

Mr. LYMAN. In that connection, as I understand it, there has been a ruling which has to do with some of the questions that were asked as to why the national farm-loan associations have not functioned better than they have. I am not willing to concede that they have not functioned. I think they have made a large and profound success, in consideration of the difficulties they have encountered.

I understand there has been a ruling, based upon what authority I do not know, to the effect that no national secretary-treasurer can be paid more than \$300; is not that true?

Mr. COOPER. No, sir.

Mr. LYMAN. We have letters from national farm-loan associations—one in Texas, I believe—where they make a great many loans, where they make ten times or twenty times the amount of loans that are made in some of the other associations, and this man has told us that he was limited to that small amount, my recollection is \$300.

Mr. COOPER. Here is what the board did before I became a member, and it has not been changed since that time: The board said it would not approve of any resolution providing for additional charge, because the law leaves that with the board—no initial charge can be made unless the Farm Loan Board approves—that it would not approve of any initial charge if the association undertook to pay its secretary-treasurer a continuing compensation of exceeding \$300.

You want to bear in mind that "continuing compensation" because he gets three-fourths of 1 per cent of the initial charge, and then for the other duties he has the board would approve of a payment of \$300.

The gentleman you have in mind, I think, was in Texas, and his compensation was about \$2,500 a year as secretary-treasurer, and he was doing all the abstracting for the associations, and he never did say exactly what he was making. He was a good secretary-treasurer, I want to say, and his only quarrel with the board was that the board thought that \$300 as continued compensation, plus his three-fourths of 1 per cent, ought to be enough.

Mr. STRONG. The initial charge on the loan?

Mr. COOPER. The initial charge on the loan is 1 per cent, and he could have three-fourths of that, and in addition to that the \$300.

Mr. LYMAN. I did not state positively; I just wanted information.

Mr. COOPER. That is the ruling the board made.

Mr. LYMAN. There is one question I did not have a chance to answer; that was Congressman Steagall's question. He wanted to know, as I recall it, about the liability of the present borrowers in the farm-loan associations as compared with the liability through these newly created agencies. This bill in section 15 gives the land banks the authority to designate these local agents, and I think we can assume that they will be the commercial banks, because the American Bankers' Association has been working on this through their representatives for a long time.

The reason why the security of these associations is better at the present time is because the associations indorse the loans of the member organizations. You will find in this bill there is no such indorsement. The memorandum which I wanted to give you is here, and is as follows—I should say this is from the brief of Mr. Lester C. Manson, attorney for the Federation of National Farm Loan Associations:

"By authorizing the undorsed loans to be made direct by the bank instead of loans made through and indorsed by the farm-loan associations, the whole plan of doing business is changed. The risk of the bank is increased. The risk of the associations as stockholders is increased. The security behind the bonds is decreased. The present market for Federal land-bank bonds will be destroyed. The interest rates to the borrower will be increased and his dividends reduced.

"A market has been created for Federal land-bank bonds backed by indorsed loans. Every bond house handling these bonds and most of the investors know that under the present system if a default occurs the farm-loan association through which the loan was made must meet the payment. Under the present system the danger of a loss to the bank is remote. The bond buyer knows that he will get his interest when it is due and his principal when his bond matures."

Mr. GOLDSBOROUGH. Have any of the associations had experiences that approached default?

Mr. LYMAN. Some of these national farm loan associations up in North Dakota have been having a hard time of it, and they have had to take care of such members as have been faced with three or four or five years of successive crop failures, but they have taken care of that, as I understand it?

Now, then to continue: "Under the method provided by these bills all defaults on direct loans will fall upon the banks. The bank assumes an entirely different liability and its bonds constitute an entirely different kind of security. A new market must be created for this new security. Federal land bank bonds are now selling as fast as offered at constantly decreasing rates of interest. Why destroy the present market for the present security by substituting something else that will require higher interest?"

You will find on page 17 of this bill, beginning with line 4: "Shareholders in a Federal land bank under this provision"—that is, the provision through the newly-to-be-created loan agency—"shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such bank to the extent of the amount of stock owned by them at the par value thereof, in addition to the amount paid in and represented by their shares."

You see, there is not the same security back of it.

Mr. WINGO. Are you quite sure?

Mr. LYMAN. I am quite sure of that.

Mr. WINGO. Let us see now. You may be right. Under your present law the liability of the present law, the liability of the member of the association, is identical with this liability you have just read, except that liability is to his local association.

Mr. LYMAN. Yes.

Mr. WINGO. Now under this provision you have just read, page 17, lines 4 to 9, this same liability of the shareholder exists, except that liability is to the bank and not to the local association. Under the present law the initial liability of the shareholder is to his local association; the local association in turn is liable to the bank on all the losses of that particular association. It looks to me at first blush, as a lawyer, that they have simply straightened out that and said that the initial liability of the shareholder, instead of being to the local association shall be to the bank and shall have the right same customary 100 per cent limit. Is not that true?

Mr. FLANNAGAN. No.

Mr. STEVENSON. The trouble about that is that is a liability of the shareholder, but the liability of some of the shareholders in one county, that is all in one association, is limited.

Mr. WINGO. Yes, I see.

Mr. STEVENSON. The whole association ultimately becomes liable.

Mr. WINGO. Here is the viewpoint he was presenting there, as I get it, that it was destroying the security back of the bonds. I think possibly it may add to it. Why? Because it makes every shareholder liable to the bank directly on all losses of that bank in a given instance, whereas now he is only liable to his local association.

Mr. STRONG. It increases the security.

Mr. WINGO. It increases the security, and I think might be urged as an objection.

Mr. LYMAN. I do not so understand it.

Mr. FLANNAGAN. Let me say a word there. The liability is to the whole association, and the whole association on every loan. And when you put in the double liability of the shareholders of the Federal land bank you put in a liability that can not arise until the Federal land bank fails; consequently, the Federal land bank is primarily liable and this security is taken away. He becomes a shareholder in the Federal land bank. You can not assert a claim against a shareholder until the bank fails.

Mr. STEVENSON. Whereas in the other cases you can assert it as soon as the fellow has failed to pay his debt.

Mr. WINGO. We are talking about the bondholders. The bondholder now looks primarily only to the bank. If there is a loss now in the local association, that is a question between the bank and the local association, but the security back of the bond is the thing I am talking about. I do not believe that is changed at all, because you have the aggregate liability of each shareholder to the same limit and the same measure; that is, the customary 100 per cent equally and ratably that still exists and is back of the bank. The bondholder now has back of him the bank. Now included in the assets of that bank is its right to go on to the local association and hold it liable for the defaultations of any number of that association. So, in the last analysis you simply shift the initial liability of the shareholder, so far as the bondholder is concerned, from his liability to the local association to a liability to the bank as to which the bondholder in both cases goes primarily; is not that true, Mr. Flannagan?

Mr. FLANNAGAN. I do not think it is. My thought is different from that as far as the bondholder is concerned. The bondholder has as security the assets of the Federal land bank. The Federal land bank now has as a part of the assets the ultimate security of a double liability of the shareholders of the association in case the association fails. But if the bondholder wants to assert against the Federal land bank the double liability of the bank's own shareholders, he can not assert it until the bank has failed. Nobody can assert that claim; the claim does not exist until the Federal land bank has failed to meet its obligations.

Mr. WINGO. Is not that true now?

Mr. FLANNAGAN. No; because they have the local association back of it.

Mr. WINGO. You still do not catch my theory. The association is not liable to the bondholder now. It is liable to the bank and the assets to which the bondholder can look. Now, are the assets of the bank listed, and among those assets of the bank is the double liability of the association, which in turn has a double liability—not the double liability of the association, but the equal liability, which in turn, among these assets, has the liability of the shareholders.

Now, in this bill here you have simply transferred that liability of the shareholders from the local association to a liability to the bank directly, and so the bondholder still has back of him the liability of the shareholder, though it comes through a different primary agency.

Mr. FLANNAGAN. The shareholder's double liability can not be enforced until the Federal land bank fails.

Mr. WINGO. The bondholder can not enforce a liability against the association?

Mr. FLANNAGAN. Not until the Federal land bank defaults. The Federal land bank itself must assert the additional liability against the shareholders of the association. Nobody else can assert it.

Mr. WINGO. Is not that true now?

Mr. FLANNAGAN. Yes; because the Federal land bank has got a claim against the association, and in case the association fails the Federal land bank has an asset which is a secondary claim against the shareholders of the association, but under the Strong bill it can not have a secondary claim against its own shareholders, because that can not exist until the bank fails.

Mr. WINGO. All right. By doing away with the local association you produce the same legal effect from the standpoint of the bondholder as if the association had failed, so far as the liability of the shareholder is concerned. The shareholder becomes liable under the change to the bank?

Mr. FLANNAGAN. Yes.

Mr. WINGO. The bondholder now can not reach the shareholder, nor the local association at all except through the bank, as one of the assets of the bank?

Mr. FLANNAGAN. The bank itself can not reach, except through the bank, that is true. But the bank itself can not assert the claim of double liability until the bank itself has defaulted.

Mr. WINGO. That is true in both instances.

Mr. STEVENSON. You will get at the solution by taking a specific case. Here is the Bank of Columbia which issues and sells a thousand-dollar bond, and Mr. Morgan buys it. He has a thousand-dollar claim. That claim is backed by five farmer mortgages coming from the Chesterfield Association, of \$200 each?

Mr. FLANNAGAN. Yes.
Mr. STEVENSON. Let us see what the security for that is? In the first case, those five fellows each have 5 per cent of stock and they are liable for that. They have a personal liability of 5 per cent of that loan, which is \$50 altogether.

Mr. FLANNAGAN. Yes.
Mr. STEVENSON. But the default is made on the bank.
Mr. FLANNAGAN. Yes.
Mr. STEVENSON. The holder, Mr. Morgan, goes back on the Bank of Columbia; he does not bother with the Chesterfield Association.
Mr. FLANNAGAN. That is correct.
Mr. STEVENSON. But when he goes back there the bank has failed.
Mr. FLANNAGAN. Yes.
Mr. STEVENSON. And when they look into it they find that two of these fellows have failed to pay their debts.

Mr. FLANNAGAN. But when he goes back to the bank, before the bank has failed, and says, "I want you to collect that asset," the Federal land bank can collect it, if he is a shareholder of the association; he can collect it through the association.

Mr. STEVENSON. The land bank can do it?
Mr. FLANNAGAN. Yes.
Mr. STEVENSON. But not the bondholder?
Mr. FLANNAGAN. The land bank can collect from the association for the benefit of the bondholder, but the land bank can not collect it for the benefit of the bondholder from its own shareholders.

Mr. STEVENSON. No; because it has failed.
Mr. FLANNAGAN. Exactly. But in the other case it does exist.
Mr. STEVENSON. But he goes back now to the Chesterfield Association. The Columbia bank, having to make good this bond to Mr. Morgan, goes back to the Chesterfield Association, and says: "I want my money?"

Mr. FLANNAGAN. Yes.
Mr. STEVENSON. "Here is \$400 of this that has not been paid. I want that collected." Then the association adds his liability.

Mr. FLANNAGAN. Yes.
Mr. STEVENSON. And every fellow in it is liable?
Mr. FLANNAGAN. To the association; yes.
Mr. STEVENSON. To the association. So that the Columbia bank has every man in the Chesterfield Association liable to it for that default of \$400?
Mr. FLANNAGAN. As it stands to-day.

Mr. STEVENSON. And if they do not get \$400 out of the two fellows who owe it, they get it out of the balance of the fellows?

Mr. FLANNAGAN. The fellows who are liable. Very well, now. Take the other case. Go a little further and say that the Federal land bank comes and it has its own shareholders it wants to go against. How will it collect it?

Mr. STEVENSON. Its own shareholders?
Mr. FLANNAGAN. Its own shareholders.

Mr. STEVENSON. Its own shareholders is that Chesterfield Association?
Mr. FLANNAGAN. No; its own shareholders under the Strong bill has changed; its own shareholders will be the farmer.

Mr. STEVENSON. But, I say, under the law it is now.
Mr. FLANNAGAN. Oh, under the law as it is now, you can collect it.
Mr. STEVENSON. It goes on to the association, and the association has got to make it good to its shareholders, but if you change it, then you eliminate the associations absolutely.

Mr. FLANNAGAN. That is the point I make.
Mr. STEVENSON. And there is just one fellow who has fallen down on his \$200 loan?

Mr. FLANNAGAN. Yes.
Mr. STEVENSON. And it goes on him and forecloses the security and get what it can, and that is the end of it, except that that fellow has some stock in the bank; that stock can be forfeited for the debt?

Mr. FLANNAGAN. That stock can be forfeited for the debt, but the Federal land bank can not enforce double liability under the new law as proposed.

Mr. STEVENSON. But his penalty of 100 per cent is now available if the bank is a running concern?

Mr. FLANNAGAN. That is right.
Mr. STEAGALL. As I understand you, you raised the point that the bonds of the bank up to now, or the system up to now, have been sold, predicated upon a certain well-defined sort of security; and that to provide now for loans upon different security to the agents would change the character of the security being held by the bondholder at this time?

Mr. LYMAN. It seems that way to me.
Mr. STEAGALL. In other words, you take the position that there is a difference between incorporating the provision for direct loans in the system at this time, having run as it has been up to now, and the original provision of the bill when the system was started; and I think I see the force in that position.

Mr. LYMAN. My position is that I think, considering the handicaps, the system has functioned remarkably well.

Mr. STEAGALL. I favored, when this bill was first under consideration, putting in a provision for direct loans by agents, because I realized that at least in my section of the country the people were going to be slow organizing associations and taking advantage of the system. But I recognize that that was a different situation from what we are confronted with at the present time and after the system has been operating as it has under the present provisions of the law.

Mr. LYMAN. My belief is that if many of the influences that are at work to change this system are successful now and the farmers lose the machinery of their associations later on, if such unfriendly influences can be successful now, they may be successful in doing other things to the system, because they do not want this kind of a thing in American agriculture. They fought it tooth and nail; and if they can win out now, then the next finishing steps will be taken later. I do not know just how these steps will be taken. I am not saying that the board will sanction it; I am not saying that the board is lending itself intentionally with any malice aforethought to this thing. My plea is for these national associations now. There ought to be a lot more of them. We have only taken care of a minority of the borrowers in this country.

My plea is not only for the associations, but it is also for these future potential borrowers, and if we go ahead with the present act and use the plan as mapped out—except for the temporary amendment which takes away the right to elect permanent directors by the farmers—my feeling is that the rates are going to go down the way they have in Europe. They ought to be 4 per cent with amortization, and not over 4½ with the amortization.

It is going to be a wonderful thing for American agriculture, and the fact that the influences which are opposed to this act will see later on that this is a very wise plan to get interest rates down to the producer, to make home owners of these tenant farmers, and so on. Six per cent is a pretty high rate.

Mr. STRONG. The rate is 5½ per cent now.
Mr. LYMAN. It is 5½ per cent now, though I believe that the joint-stock land bank has a higher rate; I think there is a difference of one-half per cent. In that connection, you know that the joint-stock land-bank bonds are not indorsed the way the farm-loan bonds are indorsed.

Also observe in that connection that these joint-stock land banks elect all their directors.

Mr. STRONG. In your statement before the committee you asserted the presumption that the agents to be appointed under this bill would probably be bankers?

Mr. LYMAN. Yes, sir; most of them; bankers or loan agents.
Mr. STRONG. My intention and my thought was that the contrary might result. At the present time, in my own district, some of the farm-loan associations are not functioning because the secretary-treasurers are bankers, and some of the farmers are urging the appointment of an agent be authorized, so that they can have somebody appointed who is not a banker.

Mr. STEAGALL. Why do they not turn out the secretary-treasurer and put in another one?

Mr. STRONG. Because in some cases they are popular men and very prominent financiers in the community. I have asked that question, and they do not seem to want to begin the movement to oust them.

In another county, for instance, we have no cooperative loan association at all, and efforts have been made to organize; but it has been said that when

efforts were made to get 10 farmers together, that the joint-stock land bank went to some of the farmers and made the loan and thus prevented the organization of the organization.

Now, the result is that in some parts of my district the farm-loan associations are functioning well and making loans to the farmers; but in other parts they are not functioning at all, and the farmers are getting no service from this system. And my purpose and my idea of the amendment appointing agents—and it has been so for two or three years—was to enable the communities where there was no proper farm-loan association to secure the appointment of an agent that would make the loan. In other words, my thought was to take out the red tape and ignore anybody's interest except that of the farmer, and to enable the farmer to secure the loan with the least possible trouble.

You are interpreting it to mean that it is done to break down the system. My idea was that it was done for the purpose of building up the system and the better to serve the farmer.

Mr. COOPER. This amendment provides that when there are 10 of these individual borrowers in any community they may form an association?

Mr. STRONG. Yes.

Mr. COOPER. And the purpose of that, I want to state, is to serve in a territory which is not served by the association. Some places can not get 10 farmers together, and as soon as they have 10 they may form an association if they wish.

Mr. STRONG. The last clause in this bill, which provides for the forming of association, eliminates the objection that the appointing of an agent may break down the associations, because the appointment of agents might more easily make 10 farmers loans who afterwards could be organized into an association.

Mr. STEAGALL. What would be the object of forming the associations if they get the money? To say they may organize after they get the money? I have been an advocate of the plan for direct loan. Mr. Lyman's objection is that it presents a different situation now to attempt to change the law after we started out.

Mr. STRONG. To answer the question why they form the associations after they get the money, then why maintain the associations after they have secured loans?

Mr. STEVENSON. Simply because under the present system when they have organized an association and gotten loans they have committed themselves to liabilities, and have got an investment there of 5 per cent, and it is a valuable one because it pays interest, which enables them to reduce the loan.

Mr. STRONG. The 5 per cent investment follows just the same.

Mr. STEAGALL. The fact remains they organize these associations for the purpose of borrowing money?

Mr. STRONG. Certainly; and the purpose of this system is to get the farmer the money, and if he gets it by an agent and gets it in that manner quicker and better, why should he not have the opportunity to do so?

Mr. LYMAN. These points come up that have direct bearing on my statement.

Mr. STRONG. Go ahead with your argument.

Mr. LYMAN. There is a very blinding reason why we should maintain the association after the loan has been obtained, and that is so that they may continue loans to others, and also exercise intelligent choice of the officials in the land banks. I gave you an illustration, and I think it was germane, about the life-insurance companies with stockholders scattered all over the country, thousands in number, who can not exercise intelligent choice. But if they maintain associations out in Kansas, Nebraska, Arkansas, and in all the other States and watch the situation they can elect good directors and they can prevent an overthrow of their system; they can prevent the passage of such a law as this if they are minded to do it.

Mr. STRONG. They could, but my contention is that this law is in the interest of the man who wants to borrow the money, and if he understood it he would not want to defeat it.

Mr. LYMAN. Let us assume the present law is a perfect law for the sake of argument. Then let us assume that there are forces endeavoring to destroy the system. Through the associations they can mobilize to prevent any change to this perfect system, but they can not do it if they are scattered out as individuals and if bankers and others are going to act for them who do not

approve of and are opposed to agricultural cooperation in all of its essential features.

Mr. STRONG. Mr. Flannagan will go on to-morrow morning, and the committee will now take a recess until 10.30 a. m.

(Thereupon, at 4.35 p. m., the committee adjourned to meet to-morrow, Friday, January 5, 1923, at 10.30 o'clock a. m.)

COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Friday, January 5, 1923.

The committee met at 10.30 o'clock a. m., Hon. James G. Strong presiding.
Mr. STRONG. The hearing will be resumed. Mr. Flannagan, do you wish to proceed?

Mr. FLANNAGAN. I am ready to proceed if the committee wishes to hear me now.

STATEMENT OF W. W. FLANNAGAN, SECRETARY-TREASURER
AND GENERAL AGENT OF THE FEDERATION OF FARM LOAN
ASSOCIATIONS, WASHINGTON, D. C.

Mr. FLANNAGAN. I was secretary of the congressional joint committee which framed the farm loan act for 18 months. Senator Hollis was chairman of the mortgage branch of that committee, it having been divided into two branches, one for mortgage loans and one for personal credits. I was in almost daily contact with him for that period, and consequently have had an opportunity of being familiar with the formation of the farm loan act and for the reasons that controlled in many of its provisions.

I have prepared a short statement which I should like to read. It will take but 10 or 15 minutes. Then if the gentlemen desire to ask me any questions I shall be glad to answer them.

At the present time I am the secretary-treasurer and general agent of the Federation of National Farm Loan Associations, originally organized as the "National Union of Farm Loan Associations," and am representing them in that capacity here to-day.

Mr. STRONG. Would you prefer to finish your statement without interruption; would it inconvenience you to answer questions as you go along?

Mr. FLANNAGAN. Just as you choose; I have my statement written, but as the statement is so short, I thought I had perhaps better read it and you could question me afterwards.

Mr. STRONG. Very well.

Mr. FLANNAGAN. This bill introduced by Congressman Strong, of Kansas, is a move to carry out the recommendations for changes in the farm loan act made by the Farm Loan Board in its fifth annual report. The only variation is that in that report the board asked authority to remove the secretary-treasurers under certain conditions, which the Strong bill does not give them authority to do. These recommendations have already been so thoroughly discussed, and so uniformly condemned by the national farm-loan associations that it is amazing an effort should be made to carry them into effect unless it be announced in the open that the destruction of these associations is desired and intended.

Senator Fletcher, in his speech on the floor of the Senate, February 3, 1922, has distinctly shown that the provisions of this bill, if enacted into law, would nullify the intent of Congress in passing the farm loan act; would destroy the cooperative features of that law; would deprive the farmers of the country of the financial independence which that law sought to give them, and instead of providing them a method whereby the development of agriculture would be directed by them (subject to the supervisory control of the Farm Loan Board) the purposes of the act are to be perverted so that the farmers may furnish the necessary capital by mortgaging their farms, but so that the direct management is to be centered in and controlled by a politically constituted board at Washington, and its appointees.

Of course, if Congress desires to change the whole intent and purpose of the farm loan act, and that is understood, then there is nothing more to be said.

The bill in question proposes as follows:

First. That the salaries and expenses of the farm-loan bureau shall be paid by a semiannual assessment upon the Federal and joint-stock land

banks in proportion to assets, thus reducing the dividend capacity of said banks and forcing the farmer to pay for the support of the only bureau in the Treasury having supervision of their financial affairs, but leaving all other bureaus to be provided for by annual appropriations out of the general fund. Why not assess the national banks for the expenses of the bureau of the Comptroller of the Currency? Are the farmers more prosperous than the banks? Or is the lust for additional power so consuming that the board must have the power of taxation added to its other functions?

The second provision of the bill is that the law giving the national farm loan associations the right to elect six out of nine directors of the Federal land banks be changed whereby the associations may elect three, the Farm Loan Board appoint three, and these six select a seventh; in case of a tie vote, the farm-loan commissioner to decide. It removes from the act the provision that one of the directors appointed by the Board shall be an actual farmer and substitutes the provision that the seventh director to be thus selected shall be an actual farmer, but as it makes no provision for his compensation and leaves him out of the management of the central Federal land bank subsequently provided in the Strong bill to be organized, this provision is a mere camouflage and is intended to leave the control and management of the Federal land banks with the directors appointed by the Farm Loan Board, in direct conflict with the purpose and intent of the farm loan act.

Third, That a central Federal land bank be chartered by the Farm Loan Board, to be located in Washington and managed by a board of directors consisting of the 12 presidents of the Federal land banks, having a capital stock subscribed exclusively by the Federal land banks.

As you will observe, the first bill introduced by Congressman Strong, November 27, provided that the members of the Farm Loan Board should also be directors in this central bank, but the subsequent bill (H. R. 13125) which he introduced eliminated that provision. Whether or not it was subsequently seen that putting the members of the board as directors of the central bank reduced their power I do not know, but presumably that is the reason that it was taken out, as we have seen no evidence heretofore of any desire on their part to have their power reduced. It will be noted that of the 12 bank presidents, constituting all the directors, none will reside in Washington, and hence the direction of the affairs of the central bank will rest with the Farm Loan Board. This bank is to have such salaried employees as the directors may determine and exercise all the corporate powers now exercised by the Federal land banks. No bank—that is, no Federal land bank—can issue bonds unless the central bank approves an application to issue, and then bonds of the central bank are to be issued for account of the applying bank. All bond issues of the central bank are to be guaranteed by each of the 12 Federal land banks, and all payments by them of principal and interest are to be made through the central bank. The central bank is to be the depository of the other banks, and its bond issues are to be exempt from taxation. This presents an exemplification of something quite unique in finance. One body of men, A, we will call them (the board), appoints another body, B (the bank presidents), to apply for a charter granting authority to B under the supervision of A to control and manage the property of C (the stockholders), neither A nor B having any pecuniary interest or responsibility in such management, leaving C without any voice or control therein. I consider that quite a unique proposition in finance.

This provision is another exemplification of the desire for power, and for centralization of authority in the hands of political appointees. No special authority has been given by the stockholders of the Federal land banks to its officers to make a subscription to the stock of a central bank and no such authority now exists under the law. These officers have not even been elected by the stockholders, nor have they asked any consent of the stockholders to have this done, but without any shadow of authority from them, it is proposed to pass a law taking their property and investing it where it will be subject to charges for management, with a double liability for any mismanagement. In addition thereto, it would seem unwise to give any ground to the enemies of the system for raising another question in the courts whether or not the guaranteed bonds of a central Federal land bank are the same as farm loan bonds, exempt from taxation under the decision already rendered by the United States Supreme Court.

Fourth, That the National Farm Loan Association may be voluntarily liquidated by authority of two-thirds of its shareholders, when approved by

the Federal land bank of the district and the Farm Loan Board, provided it has no debts. As the present law provides for the consolidation of associations, it would seem that everything desirable can be accomplished by consolidation (in those cases where associations are inactive or desire to quit taking new business) that separate liquidation can accomplish. Unless it is intended that the Farm Loan Board shall rule that the indorsements of associations on existing mortgages does not constitute a debt, liquidation is impossible without the payment and cancellation of all such mortgages, and this is not practical.

The law provided for the liquidation of Federal land banks and joint stock land banks, but it did not provide for liquidation of farm loan associations, and it was not intended they should liquidate, because their obligation was continuous, running over a period of 30-odd years, and while one fellow's debt was being paid off another would be substituted. Liquidation was sought to be accomplished by consolidation, allowing the existing farm loan associations to take care of those farm loan associations which desired to quit business or were inactive. Consolidation of associations does not scatter the holdings of the stock of the Federal land banks into individual units, and probably this is the reason and the purpose of this proposed change, in order that the cooperation of local borrowers, through the national farm loan associations, may thus be destroyed. Consolidation preserves the liability of the association for such indorsements and retains the security to the bondholder which such indorsement gives. Liquidation, as proposed, takes away the security from the bondholder without his consent, and to that extent is a violation of an existing contract with him.

Fifth, That the maximum loan allowed any one borrower shall be increased from \$10,000 to \$25,000 and beyond \$25,000 to any amount (when specifically approved by the Farm Loan Board) that joint stock land banks may be authorized to make loans. The farm loan act was intended primarily for the benefit of small farmers, and especially to discourage tenant farming; and if competition between Federal land banks and joint stock land banks is desired to be encouraged, there seems to be no objection to this provision, especially if Senator Fletcher's bill (S. 620) be made a law so that there will be an unlimited demand through a broad and constant market for the sale of farm loan bonds.

My own personal judgment is that it would be better for the general welfare to pass the Fletcher bill and retain the maximum loan at \$10,000 for the Federal land banks, making this amount the minimum loan for the joint-stock land banks, so as to destroy any competition and thus give each class of banks a separate field of usefulness. It should be remembered that the maximum rate of interest which the borrower may be charged is fixed by law and is the same for both classes of banks. Also, that the maximum gross profit is equally limited to 1 per cent beyond the interest rates the banks have to pay on their bonds. Hence any dividends to the shareholders who furnish the capital must come out of whatever can be saved from this 1 per cent over and above the expense of management and bad debts. The capital in the case of the Federal land bank is furnished by the farmer borrowers; in the case of the joint-stock land bank it is furnished by those who are willing to thus invest their money; and it is a mistake, in my opinion, to begrudge them the reasonable profit which the law provides. Agriculture gets the benefit of all the money the joint-stock land banks can borrow on their bond issues.

Sixth, That section 15 of the farm loan act be eliminated and a new section be substituted, which provides that direct loans may be made to borrowers at the discretion of the Farm Loan Board through agents to be designated by the Federal land banks; such agents to be paid a commission by the borrower, who is to subscribe 5 per cent of his loan to the stock of the Federal land bank and be entitled to vote, assuming a double liability thereon similar to shareholders of national banks.

This proposed change of the law appears innocent on its face, as if intended to expedite the making of loans, but in point of fact it violates every principle upon which the farm loan act is based, destroys the cooperative features of that act, eliminates a part of the security held by bondholders, and potentially destroys national farm-loan associations. The specifications are as follows:

(a) Direct loans through agents under the present law can be made only in those localities where after a year's experience no farm-loan associations have

been established and it is apparent none can be formed; such agencies are to be discontinued whenever the district represented can be adequately served by a farm-loan association, thus showing it was the intent of the law to make agencies subservient to the associations. The Strong bill allows their appointment at the discretion of the Farm Loan Board.

(b) Every agency under the present law is required to be a banking institution chartered by the law of the State in which it is located, and it is required to indorse the loan to the Federal land bank and be responsible therefor, "as if the loan had been originally made by said agent as principal and sold by said agent to said land bank."

The aggregate of such loans can not exceed ten times the indorsing agent's capital and surplus. Under the Strong bill any individual may be appointed agent, and he is not required to guarantee or indorse the loan, nor is he limited in the amount he may negotiate. Under the present law an agent represents a responsible banking institution and its indorsement means a security to the farm-loan bondholders; under the Strong bill an agency means an agent or representative of the Federal land bank, acting for the bank's account, on the basis of a commission, without assuming any responsibility. Under the present law the bondholder has in addition the benefit of the care in the selection of loans which responsibility gives. Under the Strong bill the commission the agent receives is the measure of his interest therein, whether the loan is good or bad.

(c) Under the present law it was clearly the intent of Congress that the Federal land banks should be "farmer banks," to be controlled by the farmers acting cooperatively through their local associations. It is expressly stated that they only shall have voting privileges permanently.

It was designedly omitted from the law that borrowers through agencies should have the right to vote, the contrary being specifically stated, and it is expressly provided that all original stockholders shall be paid off and have their stock cancelled from the stock subscriptions made by the National Farm Loan Associations, this showing the intent to have these associations the exclusive voting shareholder of the banks, their members being made doubly liable for any indebtedness of the association to the banks.

You understand when this original subscription was made to the bank by the Government the stock was offered to the public, but the public was not encouraged to take it. The Government subscribed in this form, but only as a temporary loan, some \$8,800,000.

Mr. COOPER. Seven hundred and fifty thousand to each bank.

Mr. FLANNAGAN. But, the actual amount subscribed was about \$8,800,000. The law provided that those individuals who subscribed at that time should be paid off at the same time the Government was paid off. The point I want to make is, that it was the intent of Congress that the Farm Loan Associations should be the exclusive voting shareholders, as at that time it was known that individuals could not vote, if they did subscribe.

(d) The substitution of individual double liability of borrowers through agencies as proposed in the Strong bill, does not supply the security given the bond holder by the endorsement of a farm loan association. The unpaid liability of an association to a Federal land bank is a claim against each of its members to the extent of his stockholding, while the claim for the double liability of a stockholder of the Federal land bank can not arise, so long as the bank is solvent. In one case the bank is a creditor; in the other the primary debtor. The bank can collect from an endorsing association in case the borrower is a member of an association which defaults. It can not collect from a borrower holding its own stock on a stock liability which does not exist. The stockholder's double liability can only arise from an unpaid debt of the bank.

In view of the fact that the farm loan associations now own upward of 85 per cent—perhaps it is nearer 90, I do not know the exact figure—of the stock of the Federal land banks, it is difficult to see any useful purpose accomplished by giving borrowers through agencies the voting privilege as proposed in the Strong bill. The ulterior purpose of the movement can only be to destroy among the farmers every vestige of cooperation for banking purposes, by scattering their primary organizations into individual units.

That is all I have to say.

Mr. STRONG. Mr. Flannagan, I believe you said that you appear before the committee as the representative and as the secretary of the National Federation of Farm Organizations.

Mr. FLANNAGAN. Yes, sir; the Federation of National Farm Loan Associations.

Mr. STRONG. The Federation of National Farm Loan Associations; you are their secretary?

Mr. FLANNAGAN. Yes; and the treasurer and the general agent.

Mr. STRONG. What salary do you receive as secretary?

Mr. FLANNAGAN. None.

Mr. STRONG. You receive no compensation at all?

Mr. FLANNAGAN. For the last two years I have received practically nothing.

Mr. STRONG. Is it contemplated that you will continue in that capacity without salary?

Mr. FLANNAGAN. As long as I feel like it, I suppose I will. In point of fact, they did grant me a salary of \$4,500 provided the salary came in, but the Farm Loan Board ruled that the association could not use corporate funds for the purpose of contributing to the expenses of the federation. In consequence, all of the money that came in has been the personal contributions of the individuals and that money has been used in sending out circulars and for various other things, so that up to December 20, 1920 I drew a salary, but for the last two years they still owe me; it is a debt I would sell pretty cheap to you, Mr. Strong.

Mr. STRONG. I am not in the market; I am a poor man and not able to invest in speculative matters of that kind. But, if your association should be able to have join it enough of those corporate associations and they should make payment of the dues, your salary would be paid?

Mr. FLANNAGAN. Yes; my salary would be paid if that ruling did not hold, because the associations would very willingly contribute the amount, but it is a different proposition when men have to go down in their pockets; it is hard to pull individual money out of a fellow's pocket.

Mr. STRONG. That is true. Who organized this National Federation of Cooperative Associations?

Mr. FLANNAGAN. I suppose that the Board of Farm Organizations were the people who first suggested it, of which Mr. Lyman is secretary—the National Board of Farm Organizations—and he asked me if I would like—

Mr. STRONG. Where do you have your offices?

Mr. FLANNAGAN. In the Farmers' Building at 1731 I Street.

Mr. STRONG. That is the building of the National Board of Farm Organizations?

Mr. FLANNAGAN. Yes, sir.

Mr. STRONG. When was this organization started?

Mr. FLANNAGAN. The Federation?

Mr. STRONG. Yes.

Mr. FLANNAGAN. Two or three years ago; I can tell you in a moment. It commenced in August, 1920 I think; at the time I resigned as secretary of the board; it was either 1919 or 1920.

Mr. STRONG. You say it was at the time you resigned as secretary of the Federal Farm Loan Board?

Mr. FLANNAGAN. Yes, sir.

Mr. STRONG. How long were you secretary of the Federal Farm Loan Board?

Mr. FLANNAGAN. Four years.

Mr. STRONG. And it was after you ceased to be secretary of the Federal Farm Loan Board that this board of Farmers' Cooperative Associations was organized nationally?

Mr. FLANNAGAN. Yes, sir.

Mr. STRONG. You have had the principal part in the organization, have you not?

Mr. FLANNAGAN. I am not the president of the association.

Mr. STRONG. Who is the president?

Mr. FLANNAGAN. M. Elwood Gates, of Brentwood, Calif.

Mr. STRONG. But you have the active management?

Mr. FLANNAGAN. Yes; I am the only active man representing them in Washington.

Mr. MACGREGOR. Is that the same as the National Board of Farm Organizations?

Mr. FLANNAGAN. No.

Mr. WINGO. While I have only been in Congress a short time, I have discovered that the commercial banks have organizations; the railroads have

organizations; the brewers used to have organizations and still have; the manufacturers have organizations. Do you know of any other group of people in this country that has not an organization here in Washington?

Mr. FLANNAGAN. No; I do not know of any.

Mr. WINGO. Do you know of any reason why the farmers, engaged in this cooperative effort, should be denied a privilege exercised by every other group in the United States?

Mr. FLANNAGAN. I do not know of any reason.

Mr. WINGO. You are not aware of any moral turpitude being involved, are you?

Mr. FLANNAGAN. May I answer Mr. Wingo's question as to why objection should be made to this organization as distinguished from all the others by quoting from the remarks of Senator Walsh of Montana? He gave the answer.

Mr. WINGO. The chairman is interested.

Mr. STRONG. You are replying to Mr. Wingo.

Mr. FLANNAGAN. Senator Walsh says on the floor of the Senate:

"In connection with the statement made by the Senator from Florida, I wish to observe that some time ago the farm-loan associations of the country, taking counsel with each other, deemed it advisable to organize themselves into a national federation of farm-loan associations for the promotion of their general and common interests. Such an association was formed, and asked a membership fee of \$10 from each of the constituent associations. Some of them paid the amount from their association funds, when the Farm Loan Board served notice upon the associations that such use of the money of the associations was in violation of the law, and a suggestion was made that criminal prosecutions would be instituted against any association which utilized any of its funds, even to the extent of \$10, for such a purpose.

"A careful study of the law has convinced me that the Farm Loan Board is entirely in error in its interpretation of the law, and I have introduced a bill, which is now pending before the Agriculture Committee, to authorize the expenditure of this amount of the association's funds. I hope to secure action by the Committee on Agriculture upon the bill very shortly.

"The point is that the Farm Loan Board does not want these associations to organize and federate themselves for the purpose of considering the legislation that is here pending before Congress or to suggest legislation to improve the present Federal farm loan act. It prefers to be the sole body making recommendations to Congress as to what legislation should be enacted or as to what legislation should not be enacted.

"Another act on the part of the Farm Loan Board that seems to me to be open to serious criticism is the obvious obstacle that it places in the way of the farm-loan associations being appropriately represented upon the directorate of the farm land banks, the stock of which, of course, is held to a very large extent by these associations themselves."

That is his explanation of it. It is found in the Congressional Record of the proceedings of February 3, 1922.

Mr. WINGO. I would infer from that statement of the Senator's that there has been some suggestion that the board is opposed to your organization; is that true?

Mr. FLANNAGAN. Yes; undoubtedly it is true. They would never have made such a ruling unless they were opposed to the organization.

Mr. STRONG. Mr. Flannagan, how many of these cooperative farm loan associations are there now?

Mr. FLANNAGAN. There are probably 4,200. I will ask Governor Cooper to answer that.

Mr. COOPER. Nearer 4,600.

Mr. FLANNAGAN. Well, about 4,600.

Mr. STRONG. About 4,600?

Mr. FLANNAGAN. Yes.

Mr. STRONG. How many of the 4,600 are in your organization?

Mr. FLANNAGAN. About 300 only.

Mr. STRONG. Mr. Lyman in his testimony yesterday said something over 200.

Mr. FLANNAGAN. He corrected it and said 300.

Mr. STRONG. It is about 300; you do not know exactly how many?

Mr. FLANNAGAN. I think 297, to give it exact.

Mr. STRONG. Not 10 per cent of the cooperative farm-loan associations are represented in your organization?

Mr. FLANNAGAN. Not 10 per cent are represented by the payment of a membership fee. There are a good many more represented in another way, for this reason: A suit was instituted by the Farm Loan Association of Brentwood, Calif., to compel the Farm Loan Board to carry out the permanent organization as provided in the law, and there were many contributions for the expenses of that suit from associations that were not members of our organization; so, in that way they are affiliated with us.

Mr. STRONG. But they are not members of the association?

Mr. FLANNAGAN. Not members in the sense of having paid the membership fees.

Mr. STRONG. Then there is less than 10 per cent?

Mr. FLANNAGAN. Yes.

Mr. STRONG. Of the cooperative associations, members of your association?

Mr. FLANNAGAN. That is quite true.

Mr. STRONG. Now, I take it from your remarks that you think the Federal Farm Loan Board is opposing your organization.

Mr. FLANNAGAN. I certainly do.

Mr. STRONG. And there is a controversy then between the Federal Farm Loan Board as a governmental agency and your association?

Mr. FLANNAGAN. I do not know whether there is any controversy; I think they are very much opposed to the organization in which I am interested, but I do not think there is any controversy except as I have stated the fact.

Mr. STRONG. You, in your remarks, not only object to nearly every clause of the bill but you rather object to increasing the amount of loans that may be made from \$10,000 to \$25,000.

Mr. FLANNAGAN. I do not object to that provision.

Mr. STRONG. You do not object?

Mr. FLANNAGAN. No.

Mr. STRONG. But your argument was against it.

Mr. FLANNAGAN. I said what my personal opinion was; but, in point of fact, my organization has passed a resolution approving it.

Mr. STRONG. They are in favor of that clause of the bill?

Mr. FLANNAGAN. Not in favor of that clause of your bill, but of that change in the law.

Mr. STRONG. If it was in some other bill, they would favor it.

Mr. FLANNAGAN. It is in other bills.

Mr. BLACK. Will you permit me to ask one question there. I understood you to say, and it is my understanding also, that the principal purpose of the farm loan act was to afford the small borrower an opportunity to get money at a low rate of interest and on an amortization plan of payment.

Mr. FLANNAGAN. Yes.

Mr. BLACK. The thought I have in mind about this provision to increase the low-limit loan—and you having made a careful study of it, I want to get your opinion—and that is, by raising this loan limit to \$25,000 and by the provision in the law which permits a loan for any kind of past indebtedness, that you will virtually admit into the system potentially all of the farm loans of the country, speaking in the aggregate.

Mr. FLANNAGAN. You raise two questions, one as to the increase of loans and the other the application of the proceeds of the loan.

Mr. BLACK. The two in the law will virtually admit all into the system.

Mr. FLANNAGAN. I am opposed to the application of the proceeds of the loan for the payment of any indebtedness; I should think the law should stand as it is; it ought to be to pay indebtedness incurred for agricultural purposes.

Mr. BLACK. That would leave you, as to those two applications, only favoring the increase in the loan limit?

Mr. FLANNAGAN. I have no objection to the increase in the limit. I stated in my examination in chief that I really thought the best for the general welfare was to have the maximum limit of the Federal land banks the minimum limit of the joint-stock land banks.

Mr. BLACK. I think there is a good deal of merit in that suggestion. The thought I had in mind was the original purpose of the farm loan act was to be accomplished by reason of the tax-exempt feature and also by reason of the low loan limit, so that the offering of the bonds would not be so great but that they would be absorbed at a low rate of interest. Now, if we go and raise this loan limit, it stands to reason there will have to be a very much greater offering of bonds in order to take care of the increased business.

Mr. FLANNAGAN. Yes.

Mr. BLACK. Now, will that not naturally result in a higher rate of interest to the borrower; that is, the tendency would be to increase the interest rate because of the inability of the market to absorb the bonds at the low rate of interest.

Mr. FLANNAGAN. My opinion is the small farmer should be served first. If there was a limited amount of money the small farmer should have the preference. My further thought is that if we can get through Senator Fletcher's bill, (S. 620) so as to utilize farm loan bonds as collateral security for rediscounts with the Federal reserve banks by the member banks, that you will have such a broad and constant market for farm loan bonds that you will get all the money you want.

Mr. BLACK. We are discussing this particular bill and not Senator Fletcher's bill, and it is quite clear in my mind if you assume that there is an inexhaustible market for these bonds at this rate of interest, then the small borrower will not be interfered with by the increase in the loan limit.

Mr. FLANNAGAN. Yes.

Mr. BLACK. But, if we assume the market has limited the low rate, then, to increase that will necessarily raise the rate of interest to the small borrower.

Mr. FLANNAGAN. It is thought it will? That increase of the limit does it?

Mr. BLACK. It would do this; it is bound to increase the offerings of the bonds if we take care of the new borrowers.

Mr. FLANNAGAN. Yes.

Mr. BLACK. Have we any assurance that the market will continue to absorb this increased offering of bonds at the present low rate of interest?

Mr. FLANNAGAN. I am inclined to think so.

Mr. BLACK. Is there not danger that we will glut the market with farm loan bonds and compel a rise in the interest rate in order to continue to market them?

Mr. FLANNAGAN. That is a matter of opinion.

Mr. BLACK. But, we are running the risk—do you not think we are running the risk of increasing the interest rate to the very man that the system was designed to take care of and protect?

Mr. FLANNAGAN. I think that an unlimited amount of bonds can be sold, sufficient to meet agricultural needs.

Mr. STEAGALL. The board has been offering the bonds at stated intervals, and in some quantities.

Mr. FLANNAGAN. Yes.

Mr. STEAGALL. Having in view the suggestion of Mr. Black that the demand would not be sufficient to absorb the large offerings, and that would operate to terminate their activities temporarily.

Mr. FLANNAGAN. I do not think the board has offered as many as it should.

Mr. BLACK. I do not think so myself; I am merely saying what their practice has been.

Mr. WINGO. You are connected in an advisory capacity with the joint committee that framed the farm loan act?

Mr. FLANNAGAN. I was secretary of it.

Mr. WINGO. You were secretary of it?

Mr. FLANNAGAN. Yes.

Mr. WINGO. You also appeared in an advisory capacity in this room before this committee when we were considering the bill and reported it to the House?

Mr. FLANNAGAN. Yes, sir.

Mr. WINGO. Is it not true that at that time the reason why there was included in the act two separate and distinct systems, one of the Federal Land Bank System and the other the Joint Stock Land Bank System; is it not true that the reason for those two separate institutions was that it was contended that the Federal land banks should take care of the small loans, which at that time, and now, did not find a market at a reasonable rate and upon reasonable terms in the ordinary farm mortgage market?

Mr. FLANNAGAN. Yes.

Mr. WINGO. And, then, was not the joint-stock land bank superimposed upon the system on the demand of those who were really against the first group, insisting that "if you take care of the small bunch you must also provide equal facilities for the large farmers of the United States," even though they were then getting ample funds in the private-loan market, the excuse being they were being held up for commissions, and that they also should have the benefit of the amortization?

Mr. FLANNAGAN. I think that is true.

Mr. WINGO. So that the system at that time contemplated a complete system to take care of every farm loan in the United States on an amortization plan?

Mr. FLANNAGAN. Yes.

Mr. WINGO. The land-bank system, handled by the Government as a non-profit-making cooperative institution to take care of the small credits and the joint-stock system, was made a private profit-making institution because it was invading the private market that was already furnishing facilities; is not that the intention?

Mr. FLANNAGAN. I think that is true.

Mr. WINGO. If that be true, what is the necessity of giving the system that is created for the benefit of a small borrower the right to go into the field of large loans that already have, first, a private market at 5 per cent at the present time with 1 per cent commission, and also the joint-stock land banks with the amortization features and a low interest rate; what is the necessity from the standpoint of the farmer?

Mr. FLANNAGAN. I do not know that the necessity exists, but I can readily see why the Federal land banks should desire to have loans of large amounts which are in the great majority of cases a better loan, easier handled, with less percentage of expense, than a smaller loan.

Mr. WINGO. Have you ever heard of these land-bank officers offering any suggestion that indicated other than they were influenced by that idea that every business man would naturally like to have the choicest business of his particular line? Is not that one of the arguments of these Federal land-bank officers; that they can make a better showing; that their loans on an average would be safer if they had the bigger loans; and that the expense per unit of loan would be reduced?

Mr. FLANNAGAN. Yes; I think that is true.

Mr. WINGO. Is there anything in this bill that provides for the reduction of the initial expense on the small loans by reason of the proposed saving you say they are going to make in the higher grade of business?

Mr. FLANNAGAN. Not that I know of.

Mr. WINGO. Isn't it a fact that the financial interests that have insisted upon the increase of the maximum—I am not talking about the farm organizations but those financial theorists—has it not been insisted by them that this system by increasing the maximum would ultimately eliminate the small minimum and get rid of him entirely? Has there not been some proposal to increase the minimum as well as to increase the maximum?

Mr. FLANNAGAN. I do not know.

Mr. WINGO. Is not there a proposal in a bill pending before this committee to shut out entirely the real small loans?

Mr. FLANNAGAN. I have never heard that the minimum has been proposed to be increased beyond a hundred dollars.

Mr. WINGO. It has been; one of the proposals to increase the maximum carries with it a raise in the minimum on the theory that it is to petty and to expensive a business for the Government agency to fool with; that is the argument that has been made. You are familiar with the workings of the joint stock land banks, aren't you?

Mr. FLANNAGAN. To some extent. At the time while I was secretary of the board there were very few in comparison to what there are now.

Mr. WINGO. Isn't it a fact that they are organizing these joint-stock banks all over the country?

Mr. FLANNAGAN. I think that is true.

Mr. WINGO. They are regarded as safe and profitable institutions?

Mr. FLANNAGAN. Yes, sir.

Mr. WINGO. And aren't they reaching out in every State in the Union?

Mr. FLANNAGAN. I think so.

Mr. WINGO. And aren't they offering to every large planter and farmer who wants a loan over \$10,000 ample facilities to place loans with them under the amortization plan at the low rate of interest?

Mr. FLANNAGAN. At about 6 per cent.

Mr. WINGO. Then, why should we authorize the Federal land banks to do the same business?

Mr. FLANNAGAN. Understand me; I am not here as an advocate for you to increase the loan limit from \$10,000 to \$25,000. I said I favored it; I am not especially advocating it. My own thought is that the proper solution of it is to stop any competition between the two classes of banks by having the maximum and minimum fixed for each.

Mr. WINGO. You know why that proposition was defeated at this table, because it was the intention, as confessed privately, to drive the Federal land banks out of the field, and we permitted them to invade the Federal land bank field.

Mr. FLANNAGAN. I know, Mr. Wingo, it was proposed to make the maximum of the Federal land bank the minimum of the joint stock land bank. I remember one of the committee said he thought that was a foolish thing as he wanted them to be eaten up by the Federal land banks.

Mr. WINGO. So you can not think of any real reason, based upon the philosophy of the Rural Credit Act, why we should—

Mr. FLANNAGAN. I do not think there is any necessity for it.

Mr. WINGO. I mean necessity from the standpoint of the farmer, not the standpoint of the banks, and having them do a big business; I am talking from the standpoint of the farmer who wants an amortization plan for his farm loan at a low rate of interest; that is the man I am talking about now. Is there any necessity from his standpoint?

Mr. FLANNAGAN. For the big man or the little man?

Mr. WINGO. Is there any necessity from the standpoint of any American farmer that we should give the Federal land banks the same maximum large loan limit that the joint-stock bank has?

Mr. FLANNAGAN. I do not think there is a necessity.

Mr. WINGO. I am talking about the farmer; that is the man I am thinking about.

Mr. FLANNAGAN. It is desirable from the bank's standpoint; I think it is desirable they should have equal facilities with the joint stock land banks. I do not see any especial objection to it. If you want them to go into competition which is limited by the maximum rate which they can charge the farmer; it is also limited by the maximum profit they can charge.

Mr. WINGO. The benefits of competition from the standpoint of the consumer, whether it be commodities or credits, is a lower price?

Mr. FLANNAGAN. Yes.

Mr. WINGO. But with the law we have and its proposed change, would that competition between these two systems have any effect?

Mr. FLANNAGAN. There is no intent to change the law fixing the maximum rate to the borrower over 6 per cent.

Mr. WINGO. Can you not now, even with these Federal land banks limited to the smaller loans, sell their bonds at a good deal lower rate of interest than they are now being sold? Were not the bonds yesterday gobbled up at 101?

Mr. FLANNAGAN. My opinion is they can be, and I think the farmers are entitled to it.

Mr. WINGO. So there is no necessity from the standpoint of the present or prospective market of giving a higher grade of securities to these banks in order to get the farmer a lower rate of interest?

Mr. FLANNAGAN. I do not think so.

Mr. WINGO. If we want to, right now we can safely reduce the rate of interest to the farmer?

Mr. FLANNAGAN. I think so.

Mr. MacGREGOR. Why is the number of joint-stock land banks decreasing?

Mr. FLANNAGAN. There was an increase the other day.

Mr. BLACK. I think possibly Mr. MacGregor has an idea the bill does that.

Mr. MacGREGOR. No; the report of the Comptroller of the Currency, printed December 5, 1921, shows there were 31 joint-stock land banks then chartered; that only 24 were doing business at the close of business October 31, the charters of 7 having been surrendered.

Mr. WINGO. These organizations are now about 63.

Mr. FLANNAGAN. Sixty-three, I think it is.

Mr. BLACK. I think it is conceded by everybody that there is quite a demand now for the organization of them. I think the board will agree to that.

Mr. MacGREGOR. They have more than doubled in a year?

Mr. BLACK. I think you have three joint-stock land banks authorized to do business in my State now.

Mr. MacGREGOR. How much money have they loaned?

Mr. FLANNAGAN. \$183,000,000.

Mr. MacGREGOR. What has been the reason for the sudden jump?

Mr. FLANNAGAN. I think there were several reasons for it; they have become more familiar with the operation of the law and there is a good market for bonds; it is also profitable to the stockholder.

Mr. STRONG. Mr. Flannagan, do you think the appointment of agents would increase or lessen the opportunity to the farmer to get the money from the Federal farm-loan system?

Mr. FLANNAGAN. Do you mean to appoint agents, like your bill contemplates, without any indorsement?

Mr. STRONG. Yes; to appoint agents to lend the money.

Mr. FLANNAGAN. I think that wipes out the purpose of the law and decreases the security to the bondholders.

Mr. STRONG. The purpose of the law was to lend the money to the farmer at the lowest possible rate, was it not?

Mr. FLANNAGAN. The purpose of the law was to create a financial system for farmers to get money at a low rate of interest for agricultural development.

Mr. STEVENSON. Will you permit me to interject one word? And to permit them to pool their credits in order to get it cheap.

Mr. STRONG. Then you believe that the purpose is to serve the farmer by allowing him to have a financial association of his own management?

Mr. FLANNAGAN. I believe that is the purpose of the farm loan act.

Mr. STRONG. This system having been created and functioning now, would not the farmer get his money with less red tape and easier if agents could be appointed to take his application for the loan and put it through?

Mr. FLANNAGAN. But, Mr. Strong, that would mean that every Tom, Dick, or Harry could negotiate a loan without reference to the security, and undoubtedly he could get the loan quicker.

Mr. STRONG. That is not what the bill provides, is it?

Mr. FLANNAGAN. Your bill provides that an agent may be the agent of a Federal land bank, and that the present security on the mortgages they take, made by the indorsement of the agents, shall be eliminated.

Mr. STRONG. Yes; but you do not think the Federal land banks would appoint Tom, Dick, or Harry as agents?

Mr. FLANNAGAN. I do not know whom they will appoint; they may want to make a political machine of it.

Mr. STRONG. But you think that the Federal farm loan banks would be apt to appoint men who would make the loans properly, don't you?

Mr. FLANNAGAN. I do, as a rule, but they could exercise favoritism even in that.

Mr. STRONG. This appointing of agents has been my idea ever since I was elected to Congress, for the reason that in my district while we have some farm loan associations that function very finely we have others that do not function at all. I am a member of a farm loan association that does function well. It has not as yet paid dividends on my stock, and it may not do so, and I do not care whether it does or not so long as the secretary-treasurer goes out and makes the loans to the farmers; but in other counties in my district the farm loan associations are not functioning, and in one county in my district we have not been able to get an association. What I want to do is to enable the farm land bank at Wichita in my own State, where there are no farm-loan associations or where they are not functioning, to be able to appoint agents to make these loans so that all the farmers in my district may have the benefit of getting the amortized loans under this farm loan system.

Mr. FLANNAGAN. May I answer?

Mr. STRONG. Yes.

Mr. FLANNAGAN. The law supplies a remedy for that condition as it stands. It says in cases where the farm loan associations have not been formed or there is no prospect of their being formed, that the agencies can be established. All they have to do is for the Federal land bank to say to the association, "You people are not accommodating the men in your community; if you do not improve we are going to appoint an agent," and go and appoint him.

Mr. STRONG. But the law says they may make the appointments when it shall appear to the Farm Loan Board that the national farm-loan associations have not been formed or are not likely to be formed. It does not say "where they are not functioning." The farm-loan banks have no authority to appoint agents where there is a farm-loan association that is not properly functioning.

Mr. FLANNAGAN. Then amend your law by saying, "or are not properly functioning," without going into the whole question of eliminating the whole plan of the Federal farm loan system.

Mr. STRONG. Isn't that what the bill says?

Mr. FLANNAGAN. No.

Mr. STRONG. This bill of mine says "that whenever it shall appear to the Federal Farm Loan Board to be necessary to the proper service of borrowing farmers in any locality, said board may, in its discretion, authorize Federal land banks to make loans on farm lands direct to borrowers and to designate local agents to receive such applications and represent the bank in the closing of such loans."

Mr. FLANNAGAN. Don't you see that is an agent for the bank?

Mr. STRONG. Yes; to make the loans.

Mr. FLANNAGAN. To make the loans without any indorsement and without any responsibility.

Mr. STRONG. Do you really think, Mr. Flannagan, that the indorsements on these loans have any great value?

Mr. FLANNAGAN. I certainly do; I certainly do.

Mr. STRONG. These farm loans are made on a 50 per cent value of the farms, are they not?

Mr. FLANNAGAN. Yes.

Mr. STRONG. And, in turn, the system has about four million surplus?

Mr. FLANNAGAN. I beg your pardon?

Mr. STRONG. What amount of surplus has been built up in these banks?

Mr. FLANNAGAN. About four or five millions; four million, probably.

Mr. STRONG. Four or five millions; don't you think under those conditions there is no liability of anyone being called upon to pay under the guarantee?

Mr. FLANNAGAN. You can not get me to question the solvency of the farm-loan bond; I think it is the best security in the world.

Mr. STRONG. Yes; so do I.

Mr. FLANNAGAN. But I do not want to reduce it.

Mr. STRONG. Do you think the individual guaranty of the association very much strengthens the system or the bonds themselves?

Mr. FLANNAGAN. I do; I think that it is a system that has been built up, which has established in the market the great strength of the farm-loan bonds to-day. It is because there is a local check upon the loans that may be made. That is the reason; every fellow in the community knows whether or not the loan is good; there is the indorsement and there is the liability, and you want to wipe both out.

Mr. STRONG. No; here is what I want; you and I both agree that this is a good system of lending money. I want it fixed so that every farmer can be served. You would have it so only the farmers where there is a farm-loan association can get the loans. I want them to be relieved of that restriction.

Mr. FLANNAGAN. You can relieve that easily enough by the administration, by the Federal land banks joggling the associations and saying, "You are not giving the farmers as much money as they want." Let them say that "if you do not do that we will appoint somebody else as agent."

Mr. STRONG. They can not do it where there is an association.

Mr. FLANNAGAN. Then, make a law so they can do it.

Mr. STRONG. That is what I am trying to do.

Mr. FLANNAGAN. But you are doing so many other things you are ruining it.

Mr. STRONG. But you do not object to the appointment of the agent if it is necessary?

Mr. FLANNAGAN. Not if it is necessary to enable the farmer to get the money.

Mr. STRONG. That is what my bill says.

Mr. FLANNAGAN. It says a great many other things.

Mr. STRONG. On that subject that is what it says.

Mr. FLANNAGAN. No; we are not in accord on that proposition. You want to appoint an agent who is the representative of the Federal land bank; you want an agent who has no responsibility.

Mr. STRONG. No; I provide he shall be put under bond.

Mr. FLANNAGAN. You know, Mr. Strong, that bond would be only for good faith; it is not a bond for financial responsibility.

Mr. MACGREGOR. Where is the difference, now, between the two? I do not see very much difference in the authority to appoint agents.

Mr. FLANNAGAN. I beg your pardon?

Mr. MACGREGOR. I do not see very much difference in the original act and the amendment with reference to the authority to appoint agents.

Mr. STRONG. The difference is this: Under the original act they could only appoint them where there was no farm-loan association.

Mr. MACGREGOR. No; it says where, "in the judgment of the Federal Farm Loan Board, be adequately served."

Mr. STRONG. The authority to appoint them under section 15 of the original law was only given where there is no farm-loan association.

Mr. McPHERSON. It says, "If at any time the district represented by any agent under the provisions in this section shall, in the judgment of the Federal Farm Loan Board, be adequately served." Suppose the Federal Farm Loan Board says it is not adequately served?

Mr. STRONG. Where is that?

Mr. McPHERSON. Down at the bottom of page 16, paragraph 15, of the original act.

Mr. STRONG. It says, "If at any time the district represented by any agent"; but it does not say by any farm-loan association. The authority to appoint is only where there is no farm-loan association.

Mr. MACGREGOR. No; it says, "Adequately served by National Farm Loan Associations."

Mr. STRONG. No; you are mistaken.

Mr. MACGREGOR. There are the words.

Mr. STRONG. The section you refer to is this: "If at any time the district represented by any agent under the provisions of this section shall, in the judgment of the Federal Farm Loan Board, be adequately served by National Farm Loan Associations, no further loans shall be negotiated therein by agents under this section."

Mr. MACGREGOR. Supposing they determine it is not adequately served?

Mr. STRONG. Well, that is the case where an agent has already been appointed and a farm-loan association comes in; then they have to do business through the farm-loan association, but the right to appoint the agent in the first place exists only where there is no farm-loan association. You can not appoint an agent under existing law unless there is no farm-loan association existing. If there is a farm-loan association existing and not functioning, you can not appoint an agent under the existing law. What I am trying to do is to give the banks the right to appoint an agent where the farm-loan association is not functioning and serving the farmer.

Mr. FLANNAGAN. If you would confine yourself to that point, there would be no trouble, but you are doing so many other things.

Mr. STRONG. I know; I am trying to agree with you and determine the things we are in harmony on, and that is one point we have settled.

Mr. FLANNAGAN. Yes.

Mr. MANSON. You would not object to the amendment of section 15 of the original act to provide for the appointment of farm-loan agents when the cooperative associations do not function, providing—

Mr. FLANNAGAN. That is what I am trying to explain.

Mr. MANSON (continuing). Provided the agent is to be governed by the restrictions contained in section 15.

Mr. FLANNAGAN. That is what I have been trying to drum into Mr. Strong for a half hour.

Mr. MANSON. Would not Mr. Strong's purpose be served by amending section 15, so as to add to the occasions when an agent can now be appointed or when the farm-loan associations in such districts do not function?

Mr. FLANNAGAN. Right.

Mr. STRONG. I want to say to you, Mr. Flannagan, that I shall be very glad to accept such an amendment. What I am trying to do is to get the farmers in the counties in my district, and in every district in the country, served where the farm-loan associations are not serving them.

Mr. FLANNAGAN. I am in accord with you there.

Mr. STRONG. This condition exists: There are communities where a certain family or sect or a certain neighborhood decides to get a farm-loan association, and then when they get the association formed and they set their loans they say to themselves, "We will not make any more loans; we will not become guarantors for others." They sit down and quit. The farmers have to be served in other places. Again, the cashiers of banks who are the representatives of the farm-loan bankers' association have become the secretaries-treasurers and they are not making the loans through the farm-loan association, but are blocking loans through the farm-loan associations and making the loans through their other agencies. Now, the farmer doing business with that bank does not want to start a complaint that will oust him from his position, but he does say, "Why can not we have an agent who will come here and make

the loans?" My purpose is to enable all the farmers to get authorized loans under this system at the lowest possible cost and the least possible trouble, and that is the purpose of my amendment to section 15.

Mr. FLANNAGAN. It will accomplish more than that, as I tried to show you. If you will amend the law simply to the extent that where farm loan associations are not functioning, in addition to the privilege which you have already of organizing another association, making the appointment of agents under the same terms and conditions that now exist, I say "Amen."

Mr. STRONG. That is what I want to do.

Mr. WINGO. Now, if you have agreed upon your theory, frame it.

Mr. STRONG. Now, as to your suggestion of destroying the competition between the joint-stock land banks and the Federal farm loan banks by limiting the loans of the joint-stock land banks above \$10,000 and the Federal farm loan banks below \$10,000; don't you think that has a tendency to deprive the farm loan system of good loans that might be desirable above \$10,000?

Mr. FLANNAGAN. If you are going to assume that all big loans are good loans and all small loans are bad loans—

Mr. STRONG. I am not assuming that. Don't you think that would be a good amendment?

Mr. FLANNAGAN. As I stated; yes, I do.

Mr. STRONG. I do not see any objection to it. It gives the joint-stock land banks a field to themselves and the Federal land banks a field to themselves, and the farmers get the benefit in both cases.

Mr. STRONG. Wouldn't it deprive the farmer who is now living in a community where there is no farm loan association of an opportunity to get a loan?

Mr. FLANNAGAN. How?

Mr. STRONG (continuing). Because he would have to go to the joint-stock land banks, and he could not unless he wanted a loan above \$10,000, if this was put through.

Mr. FLANNAGAN. He can not get it from the Federal land banks now above \$10,000.

Mr. STRONG. No; he can not get it now.

Mr. FLANNAGAN. He can get it from the joint-stock land bank. It all works back to the agency question.

Mr. STRONG. That is the reason I want an agency. Do you think there is any danger of the joint-stock land banks, when money becomes more plentiful, destroying or hurting the operation of the farm loan banks? I want your opinion.

Mr. FLANNAGAN. I am going to tell you; not if you will encourage the cooperative spirit among the farmers through the farm loan associations. If you do not throw obstacles in their way; if you do not restrict them; if you administer the law so as to encourage them and enlarge their powers; then you will not have any difficulty.

Mr. STRONG. Mr. Flannagan, I have always been in favor of the cooperative spirit among the farmers and am in favor of it now, but do you think there is much cooperative spirit or benefit resulting from the farm loan associations? Do not the men just go in to get loans, and after the loans are secured their interest lags?

Mr. FLANNAGAN. I think that is largely true; it depends largely on the secretary-treasurer. Some of the associations have made loans up to a million dollars. I know of one in Texas, and they are having a row with a farm loan secretary-treasurer on the question of compensation because he thinks he ought to get more compensation, and they do not believe he ought to. He has loans up to a million dollars in one association, and lately he says the joint stock land banks have offered him a commission, and he is going to give them the business because the Farm Loan Bank would not encourage him.

Mr. STRONG. I don't think he is in my district.

Mr. FLANNAGAN. He is in Texas.

Mr. STRONG. I don't think the Farm Loan Association has much cooperative features among the farmers. They simply go into it to get the loans, and having gotten the loans they let the secretary-treasurer run the business.

Mr. FLANNAGAN. Then encourage the secretary-treasurer to get more business; encourage them to enlarge these things, extend the powers of farm loan associations; make them the nucleus for doing the cooperative business in their community; that is what you can do. That is the point you ought to direct your attention to.

Mr. STRONG. Does any member of the committee have any further question to ask Mr. Flannagan? If not, we will now take an adjournment until 2.30. (Thereupon, at 12.30 o'clock p. m., an adjournment was taken until 2.30 p. m. of the same day.)

AFTER RECESS.

The committee reconvened at the expiration of the recess.

Mr. STRONG (presiding). We will first hear Mr. Quick.

STATEMENT OF HON. HERBERT QUICK, BERKELEY SPRINGS, MORGAN COUNTY, W. VA.

Mr. QUICK. I was connected with the movement for the enactment for the Federal farm loan system for a number of years prior to its enactment, and for the last two or three years prior to its enactment I was the chairman of the legislative committee of the Rural Credits League. We had offices here in Washington. After the bill was passed, I was requested by Secretary McAdoo to take a place on the Federal Farm Loan Board, and at considerable financial sacrifice to myself I did it, because I was interested in the whole subject of rural credits. I served on the Farm Loan Board for the first two years of its existence, and then—because I felt that my business was really that of a writer rather than that of a Government official—I resigned, and my place was taken on the board, I think, by Mr. Joyce, and I think that Governor Cooper is now filling out my unexpired term. I drew the long term on the board and resigned because I wanted to, although my relations with the board were at all times extremely pleasant, and also with every member of the board.

I have not any case to make here for anything, and I have not any friends to reward or enemies to punish. It was suggested by Governor Cooper and Mr. Corey, of the Federal Land Bank of Omaha, whom I met here—I live on a farm in West Virginia, but I am staying at the Cosmos Club, in Washington, for a time—that perhaps you gentlemen would be willing to hear what I had to say with reference to these respective changes in the act, which I had the honor of helping to put in force in the United States, the greatest public work, I think, which I could possibly have done at that time, and which I look back upon with a considerable degree of satisfaction—I will first take up the matter of the basic fact of the farm loan system, the National Farm Loan Association.

Having been familiar with all the literature of the subject prior to the organization of the system, and having been greatly possessed in my mind with the European precedents, which were all the precedents we had, I was the most active champion on the board of the National Farm Loan Association and the association's methods of doing business.

The members of the board were all of them favorable to the association, as I think they all of them are favorable to it yet who are on the board. I never heard of any idea on the board then nor since of any effort to destroy the association. I do not think there is any such idea in anybody's mind. But because of my study of the question and because of the fact that I was committed to the association and was an enthusiast for the association idea I was given the work of taking hold of the association work and putting the association system on its feet along with other duties of the board. Of course, we were all in touch with all branches of the work, but my special work was that of fostering the growth of the association, organizing the associations, making suggestions as to them, and keeping the statistical and economical record of the board.

The whole idea was that of cooperation, and that early idea which I had in mind I refused to discuss with any member of the board during my incumbency on the board the question of the propriety of doing business under the association plans. The association was there in the law. It was our business to make it work, and to that end the whole board and myself, in my speciality addressed ourselves.

One of the witnesses here has spoken of many of the provisions of the European associations as being applicable to this country. It depends a little on what sort of an association you have. European models are of all sorts. In some of the systems in Europe the loans are made up to 60, 70, and 80 per cent of the value of the farm, and in some of them they have a personal liability

which is unlimited. In other words, everybody's property is bound to pay everybody's debts.

Under that kind of a system you are sure to have such anxiety on the part of everybody in an association for the success of it that you can get real cooperation out of those people, because their whole fortunes are at stake. But in this country, where we loan only up to 50 per cent of the value of the land plus 20 per cent of the permanent insured improvements, the farmers are not particular about any personal liability. They take it that this measure was made for a very remote contingency; and the result is that I had not been in the system very long until I found there was not any such thing as cooperative interest in the organization of the system, and just recently I had a little experience up in my own county. I have been engaged with my neighbors in organizing a national farm loan association in Morgan County, W. Va. My neighbors were trying to organize this association for a long time. They finally met and organized and they got their loans, and at that particular moment their whole interest in the association ceased. It ceases everywhere.

We speak here of "active associations." There are very few active associations in the United States. Where the activity is found it is in the secretary-treasurer and in the secretary-treasurer only, because he has a personal interest, a perfectly legitimate personal interest, in getting his reward for new loans. But the borrowers themselves do not care anything about it. They are done; they have borrowed their money, and their loan is amortized in 33 years; and they do not care anything about it.

One of the witnesses here spoke about the interest of the farmers who have borrowed who are members of the association. The members of the associations—the borrowers—who have had their loans consummated, have got their money and spent it. What is their interest in the future of the association? Are they interested in lower rates in the future? They have none. Their liability is fixed. Of course, you may say a man may sometimes reborrow at a lower rate, but it is a condition that does not affect the average borrower's mind at all, and it is a rather remote contingency. What is the interest in the property he has invested, which is 5 per cent of the face of his loan? It is not in the amount of money he has got invested, because that is already invested; it is put up as a part of his investment and is the last payment on his loan. When his loan is paid off, the 5 per cent that he has invested in stock is automatically credited on his loan and that is done.

He is not interested very much in dividends. He is interested to a certain extent in dividends. If he has a \$3,000 loan, he has \$150 invested in stock. He is interested in the dividends on that stock; but he is not interested very much, and the way he is interested is purely speculative. If Mr. Flannagan's organization goes to him and says by their system they can make his loan pay him a higher rate of interest, that is a question that is in his mind always. The bank is already paying dividends, and the only question in his mind is whether or not this thing could make the \$150 that he has invested pay him a higher dividend than it is doing now. I think it is a pretty remote question, and he is not greatly interested in it.

The result of all this is this: That just as soon as they have formed their association—and I have sweat blood over this fact for two years, and pretty nearly know what I am talking about—I am not moving in any aura of reports of European commissions and things that we thought about before the system was adopted; mine is an ex post facto experience. The rule in the Farm Loan Association is that they organize, they hold their meetings and they get their money, and when they do that they are done; they never have another meeting at which there is a quorum. That is the rule.

You can probably get the real facts on that from other people; but I do not believe there are 10 per cent of the associations in the United States—and my testimony is subject to being upset on this by other testimony, and I would be glad to grant that it is more if it is so, but I do not believe there are 10 per cent of the associations in the United States that have ever had a meeting at a time when there was a quorum of the stockholders present since the organization of the association.

Mr. STEVENSON. Mr. Chairman, may I ask a question right there? Do you object to it, Mr. Quick?

Mr. QUICK. Not at all.

Mr. STEVENSON. What has there been for them to meet for up to this time, outside of merely getting loans?

Mr. QUICK. The law requires them to hold annual meetings.

Mr. STEVENSON. I know the law requires them to hold annual meetings, but has there been any object in it; has there been any occasion for meetings up to this time?

Mr. QUICK. Yes, Mr. Congressman; there has been the most important object of their association, an object very much closer to them than that of their control over any of the remote relations of their associations, and that is the question as to their policy of their growth, the question of the amount that they shall pay for the getting of new loans, the personality of the secretary-treasurer. If this is a cooperative association, the whole question of cooperation lies in the way in which they meet and handle the question of cooperation.

Mr. STEVENSON. Outside of that, that is, of course, theoretical. As patriotic men they ought to meet and make their associations large, but people do not go to meetings these days for more than about two purposes. One is political and the other is where they can control something that they want to get hold of. They have never been tried yet as to whether they would meet, if by meeting and selecting their delegates, to name their presidents and directors of the banks—they have never had an opportunity to do that, and, therefore, they have not shown any interest in it; but you assume that they never will.

Mr. QUICK. As I said a little while ago, I can not assume what people will do under circumstances that have not come up.

Mr. STEVENSON. This question has come up. The question with me, and it is a very serious question with me, whether I shall vote to take away from these people who own this institution, who have mortgaged their property to furnish the capital, the right to name the controlling forces in that association on the ground that they have not heretofore been meeting, when they have never had the right and never had the opportunity to exercise it. I think it is a pretty serious matter.

Mr. QUICK. You probably have a very much more accurate notion of it than I have; but my notion of it is due to the fact that they have not anything at stake in the management of the bank, except the hypothetical difference in their dividends, they would get under new management and the dividends which they get now.

Mr. STEVENSON. On the other hand, I do not want to split hairs, but the interests are not entirely hypothetical, because if the bank goes to smash, and that stock becomes worthless, then the bondholders come back on the mortgage and the stock that he holds becomes worthless by the failure of the bank, and then his land is encumbered, to that additional extent, and therefore there is more than merely the dividends?

Mr. QUICK. Yes; it adds 5 per cent to his mortgage, which is about what he used to pay for commissions to get a loan.

Mr. STEVENSON. They got tired of it, and that is the reason they have for organizing this.

Mr. QUICK. The real point he has at stake is the difference in efficiency of the management, which might be either one way or the other, between what he could install in connection with his fellows and what is in existence now. It is not, in my opinion, anything that interests him much.

Mr. WINGO. Suppose we do not change the law, and under the operation of the present statutes the time comes when they are called upon to exercise their right to perfect a permanent organization and select these directors. What, in your judgment, will be the action of the associations in that respect? Will they take any interest in the selection or not?

Mr. QUICK. I think the whole thing will be determined by the activities of the secretary-treasurers. They are the only people that take any interest.

Mr. WINGO. In other words, then, you mean by that—let us see if I assume what is in your mind—that the selection that will be made will be largely the selection of the secretary-treasurer?

Mr. QUICK. Yes; and through their influence over the people who are borrowers. The people who are borrowers will not take any interest in it.

Mr. WINGO. You know human nature pretty well; you are a practical farmer yourself, and yet you are a man who has been in the net of affairs in cities and have studied human nature. Do you think there is really any danger as seems to be feared by some, that those secretary-treasurers exercising their influence as you assume they properly will, will select unsafe men for these directorates?

Mr. QUICK. That is a question I cannot answer, Mr. Congressman. It depends upon so many things. There grows up in the midst of the system a group of secretary-treasurers who are ambitious to push their own personal

fortunes—which is perfectly legitimate—and pursue political rather than nancial methods, or would like to, for that purpose, which is perfectly legitimate.

The success of the system depends very largely on the attitude of the investing public toward the management of the bank, and I do not think that that kind of a man would help the securities any. I should feel, if I were on the farm loan board and were interested in the matter of placing issues of securities, that it would hurt it some.

Mr. WINGO. After all, that is really, I assume, what is to become of the present change here. As I understand it, the proponents of this change there provide a balanced system, where if such a situation should arise that there would be such selections or proposed selections as would give any bank over to the majority of men whom the investing public might regard as unsafe and unsound, that there would be a check there upon the part of the board to prevent that kind of a control. That seems to be the main purpose back of it, and I think we might just as well face that situation. That is the thing that seems to be in the mind of everybody, that the main object must be to preserve the confidence of the investing public in the management of the system so as to maintain an open, adequate market for the outlet of the securities.

Do you not think—let us get your opinion on this; let us assume that it is possible for the associations to be misled by unwise agitators, to use a favorite expression, and they do select the majority of men who are of a type that is apt to not be approved by the investing public?

Do you not think that the wise investor knows enough about the operation of responsibility to know that the men who might come out, and by specious promises like that suggested here yesterday; and when he does get on the directorate of that bank and he is faced with the responsibility he is going to at least have the intelligence to act safely and for the best interests of the bank and combat abuses that he thinks are not to the interests of the bank; that is, do you not think the sense of responsibility is at all times going to protect the men who will be selected, even though some of their views or some of their specious promises are made for the purpose of improving their position might be a little bit extravagant?

Mr. QUICK. I am sure I can not answer that question. I know what you mean by the "sobering effect of responsibility."

Mr. WINGO. You have had opportunities to observe. In my short experience here I have been somewhat interested in the study of men who came to either House of Congress or were put in positions of responsibility in the Federal Government, very similar to that of Mr. Briand, of France, who is a socialist, and yet he had not been in power as a socialist premier very long until he outraged every socialist in France by abandoning his theories when faced with a critical situation and was using his judgment to meet a serious situation.

Mr. QUICK. That is what us radicals object to—just as soon as we get a good Bolshevik in Congress he betrays us. [Laughter.]

Mr. WINGO. Like Brother Flannagan, I have been trying to fish that kind of an answer out of you. In other words, is not that the viewpoint of the investing public?

Mr. QUICK. I do not think so.

Mr. WINGO. And is not that given as the trouble with the farm-loan organizations and the labor organizations? Do you not think possibly that sobering influence of a sense of responsibility will be recognized by the investing public, and all this fear about somebody going to destroy the system because they happen to select a secretary-treasurer who goes out and tells them: "If you will just select me I will never foreclose your mortgage." You do not really fear that?

Mr. QUICK. I will tell you what I think. The investor gives himself the benefit of every doubt. He has got the money safe in the bank, and he will not invest it if there is any doubt at all in his mind. I am not making any forecast of what is going to happen; I just think that is something for the Committee on Banking and Currency to consider. I think that if the campaign was waged for the control of the bank and it went against the more conservative element in the bank, it would have a damaging effect on the securities. I know it would on me.

Mr. WINGO. What can you suggest from your experience and study of this matter that would have a tendency to arouse the real cooperative spirit that you would like to see aroused in these local associations?

Mr. QUICK. Nothing can arouse that, Mr. Congressman, in a transaction that is closed for 33 years. There is not any such thing as cooperation under those circumstances. Cooperation is the thing that will save agriculture, if it can be put in effect in cities, that is, at the distribution end as well as at the production end, and the spread between the farm price and the city price wiped out. But cooperation must go on as it has gone on successfully in other countries in such matters as oranges in this country, in tobacco as it has grown up in this country, and in cotton, where there is a crop every year, or where there are eggs to sell every few days or butter to sell frequently as in the case of the cooperative creameries of Wisconsin—all those things where there is a constant and short-time credit, cooperation is perfectly practicable.

But my feeling after struggling with this cooperation in land-mortgage credits for two years was that the whole cooperative feature fails, and that what we have here is only a false appearance of cooperation growing purely out of the personal interest of the secretary-treasurer, who is, after all, nothing more nor less than a loan agent, and he has become the shell of an organization from which the cooperative meat escaped just as soon as they got their loans.

Mr. WINGO. That is what I had in mind. Can you suggest anything that would be practicable and feasible and add to the rights as well as the duties of the local associations that might arouse through an intelligent selfish interest an appreciation of the benefits of cooperation?

Mr. QUICK. The fact is there are not any benefits in the farm-loan system that do not end when he gets his loan. His interest is fixed, his investment is fixed, and the only uncertainty he has got to take is the wobbling of his dividends, which do not amount to anything.

Mr. WINGO. Is there any other thing that we could add? Of course, so far as the loan is concerned, your contention is that his selfish enlightened interest ceases as soon as he gets his loan. The debt is amortized and it is safe, and the little dividend that he might get he figures a great deal of activity might increase it only an infinitesimally small amount.

Mr. QUICK. To a very negligible amount.

Mr. WINGO. In other words, it is not sufficient to arouse feelings of selfish interest upon his part?

Mr. QUICK. No; because successful agricultural cooperation—that is a lesson for American agriculture, and it is learning it gradually—is always running along the line of single commodities; it does not run along the line of general agriculture, but runs along the line of single transactions. A Danish farmer may belong to a dozen different cooperative associations. He is a member of the cooperative bee keepers, and a member of the cooperative butter producers, and so on all along the line. Those are the lines in which he is successful.

I think that the land-mortgage credit, when it is made as conservatively as ours, so there is not the element of continuing personal risk to the farmer, is utterly hopeless as a cooperative arrangement. There can be a great element of mutuality in it, but it is a mutuality that dies with each particular loan, and the transactions are not numerous enough; they are not continuous enough, and the interest is not great enough to stimulate a man to leave his home after he has worked hard all day and attend a meeting when there is nothing to do and there is nothing particularly worth while to discuss.

The great benefit that the farm loan association did—and it is a marvelous benefit, a very great benefit—was this, that it put the Federal farm loan system into every part of the United States. Prior to that time a great many localities in the United States were almost utterly without farm loan credits. Nobody went into a district where the loans were not big enough to make the business pay. Of course, they would not go.

We talk here about the solvency and about the value of the Federal farm loan bond being increased by taking these big loans. That is entirely illusive. The loans that we made in the districts where they were the smallest are just as good as the loan made in districts where they were the largest.

Mr. WINGO. Do you mean in fact, or in the mind of the investor?

Mr. QUICK. I mean in fact.

Mr. WINGO. I am talking about in the minds of the investor.

Mr. QUICK. Strangely enough the investor has a tendency to pay more for a New England bond, which is fundamentally the poorest bond we have if it were not for the interdependence of the banks, than he does for an Iowa bond or for a Mississippi bond, which is the best—no; what I had in mind was this: Take

the New Orleans Land Bank, for instance. The New Orleans Land Bank made a great volume of loans, some of them as low as \$100; and after they had been running a year or two the loan average was not over \$700 or \$800. They were poor farmers and some of the localities were just poverty-stricken places. And yet that district is almost entirely without delinquents, almost always has been, and there were abstracts of title that I would not have examined—and I have examined a great many titles; I practiced law 20 years—for \$100 that we made loans of \$100 on.

That business is hard to do with a profit, but it has had a tremendous public benefit. It extended the farm-loan business all over the country, even to New Mexico, where we made loans on a basis of 50 cents an acre. I think that the Omaha Land Bank is making loans in Wyoming district at an absolute loss, because the public interest demands it that they go out there and the spirit of the law demanded that they go out there.

The farm-loan association did that. The farm-loan association showed the world that these loans that the old mortgage companies would not make, because they were unsafe or unprofitable are actually safe when they are made in great numbers, with due attention to insurance of titles, because when we went into the whole system of titles we found great areas where the titles seemed to be bad, but there are not any areas where the titles are actually bad. We made those investigations and put in a system of insurance so they were good, and I think one of the greatest triumphs—and I think the members of the Farm Loan Board every one feel great pride in the achievement we made in the New Orleans district—was under that system, because we went in and made little loans, and finally made the bank prosperous and solvent by making those loans; and the big loan is not necessarily the safest loan. The little loan, where the man is working on his small farm and could not be driven from it with a shotgun is the loan that is safe, and it is the best loan for the country.

Mr. WINGO. And, as a matter of fact, that man did not have a market for his loans not because the loan companies doubted the security, but because it was so unprofitable to go to the expense of making them. Many people contended that these people were shiftless and that they were of such a class that it was an unsafe loan, when, as a matter of fact, the reason the life insurance companies and other private agencies did not go after that business was because they felt there could not be profit come out of it.

Mr. QUICK. Why should they go down there when they had all they could do elsewhere at a greater profit?

Mr. STEAGALL. Will there be a tendency to develop that same feeling in the Federal land banks if we enlarge the amounts of the loans to be made to them and pull off the limit or raise the limit?

Mr. QUICK. I do not think so.

Mr. STEAGALL. You do not think that they will also develop a dislike for the small loan?

Mr. QUICK. I do not think so, and I will tell you why: The Federal land bank and the Federal loan system, so far as it is inspired by a sense of public duty—take it from your State. You are from Texas?

Mr. STEAGALL. I am from Alabama.

Mr. QUICK. Alabama is just as good as Texas. [Laughter.] We found in Alabama that many of your small farmers were neglecting those hill fields, that the terracing system had been abandoned. I had something to do with that. Those fields were washing and eroding. We went to those fellows and said, "You can not get a loan through the Federal land bank unless you restore the terracing system; you have got to put this farm on a permanent basis." I do not think any other loan agency does that; and the policy of the Federal land-bank system of going into those districts and making those little loans, I think, is thoroughly fixed. The people are demanding the loans and know the loans are to be had and they are coming after them. Besides all that, the fact that those loans can be made and that they do not interfere with the value of the bonds has become a tradition of the Federal farm loan system. I should be very sorry to think that they would neglect those loans merely because they could make bigger ones.

Mr. WINGO. Right there, Mr. Quick, is something that worries me more about this thing than the maximum. I am not caring so much about the Federal Government putting an agency out in a field which is already adequately covered both by joint-stock land banks and the private companies, as I have the tendency of getting away from those small fellows which you have so finely expressed as

a necessary thing to take care of. Is it not true that the members of the board have recommended increasing the minimum to \$1,000? One of the reports of the board recommends that.

Mr. QUICK. I never saw any such recommendation.

Mr. WINGO. I think you will find that report of the board recommended \$1,000 minimum.

Mr. QUICK. I never joined in such a report.

Mr. WINGO. I may have got that confused with some member of the board's expression. But there is a very strong insistent contention upon the part of some men, even connected with the management of these banks, that these little loans are so unprofitable. They are thinking not about the public welfare that we want to conserve by it, but they are thinking about the dollars and cents and the expenses of it, that we ought to raise the minimum from \$100 up to \$500, and one has gone so far as to say \$1,000. I think it was in the report.

Mr. QUICK. No; I never joined in such a report. As a matter of fact, the \$100 loan is smaller than is usually necessary. There are very few and very exceptional cases where a man can not get \$100 if he has a farm without mortgaging his farm, and very few of them want that small a loan. I do not think Congress will ever consent to changing that minimum, and I would not be in favor of it myself.

Mr. WINGO. Congress is not, of course, going to do it. But I do not want to build up a tendency and practice and incentive in the system that will cause that small loan to be neglected when it is wanted to be made, when the man wants \$500 loan on a farm it should be given him. I think one of the most satisfactory farm homes I know of is one where the man has educated three children and sent them to the State university, whose farm you could not sell right now for over \$1,000. He has a very simple farm home; he has a little orchard, raises his own meat; he loves his home and he has educated his children. He could not get over \$1,000 at the outside on that farm. I think, as a matter of fact, he has got \$700 loan on it through the system.

As I say, I do not want a tendency built up and incentive to these directors in their desire to get what looks like better business at less trouble, so that they will neglect that field of the small fellow or the young fellow who might be able through personal thrift to get a sufficient amount to buy a small farm; or the tenant, for illustration, and where he is able to get a small loan under the amortization system and ultimately work out a small loan—it may not be the home that you and I would like to have; it may not be a farm such as the Iowa wheat grower would like to have. But it is possible for him to build up a home for himself and his children and to work out his course in life as a citizen and become a fixed member of a community, an example of all those fine and ennobling sentiments that flow from building a home and becoming a responsible member of the community.

Mr. QUICK. I was brought up on a farm with an \$800 mortgage on it, and we thought it was a terrific load.

But while we are on this question of the loan limit I want to call your attention to this fact that, as Congressman Stevenson said yesterday when we were talking about the price of land, there is not much good farm land left in the country that is not worth about \$250 an acre. The man on the high-priced land is the man who is really under great distress to-day. It is not because he is wealthy that he needs the additional loan limit; it is because the price of his prime necessities—the land. The land that he has got to have has gone up to such a price that \$1,000 does not go very far. The present loan limit of \$10,000 on \$250 an acre land, not counting the improvements, will finance a mortgage of 50 per cent on 40 acres. That is not enough; and you must bear in mind the fact that if you raise it to \$20,000 you are going up just to where it was in 1914, when you began agitating this system. In other words, you have increased your loan limit to correspond with the increasing price of land. That increasing price of land is not a healthful condition; I do not like it. And if you are going to serve the farmer you have got to give him greater loans than you are giving him now. I do not believe there will be a tendency on the part of the Farm Loan Board or of the banks themselves to neglect these small land owners. I think they will continue to take pride in the small loans. As I say, the proudest thing we have to talk about was the magnificent results of those small loans in the New Orleans district, where there was something pathetic about the manner in which they came out and got those loans and the good it did them, and the final solidity of the system we built up.

Now we come to the joint stock land bank. There is the same difference between the joint stock land bank and the Federal land banks in that respect that there is between the land bank and the farm-mortgage bankers generally. The joint stock land bank does not have to go anywhere it does not want to go. It is operated for profit purely, and it goes into a county or it stays out, and the result of the low loan limit is that a great many men want loans over \$10,000 who are not within the territory where the joint stock land banks are operating.

You say they are operating in every State. They are. So are the farm-mortgage bankers, before the farm loan act was passed, operating in every State, and yet there were great areas where there was no farm-mortgage credit available to the farmers.

Mr. WINGO. You are speaking of when you were on the board. Have you looked into the question recently, and is it not true that the joint stock land banks are covering every bit of the territory and going after these larger loans in all these States that have these high-priced lands? A State like mine that has not reached a high state of development, and yet there are three banks and there are two groups of men figuring on organizing another. You have three joint stock land banks now doing business in Arkansas; I think you have more than three doing business in Iowa.

Mr. QUICK. There are several doing business in Iowa.

Mr. WINGO. And I do not know of a single Iowa, Kansas, Nebraska, or Illinois farmer who wants \$15,000 loan that can not find a joint stock land bank ready and willing to make it.

Mr. QUICK. You have this element in the question: The Federal land banks are loaning money at a less rate of interest?

Mr. WINGO. Just what is the difference?

Mr. QUICK. A difference of one-half of 1 per cent. But if the Federal Farm Loan Board decides as they should decide, they will be loaning at 5 per cent within six months.

I perhaps had better give the committee the experience of a man who has been on the board as to why the interest rate has been kept up to where it is. In the first place, these banks started out owing the Government several million dollars. The Government put the money in it. So it was desirable to accumulate money and pay the Government off. Then our business started with the opinion of the investing world against it. It was regarded as a socialistic experiment in the minds of the most conservative, and it was likewise regarded in the minds of the liberals as experimental.

The result was that we felt that it was necessary for these banks to maintain a margin of at least 1 per cent between their bonds and their interest rate, in order that they might strengthen themselves. The banks are all getting very strong; they are among the strongest financial institutions in the country and their bonds are in excellent demand; the legality of the act has been supported by the Supreme Court of the United States, and their interest rates are going down, unless interest rates generally go up. The interest rates are higher than they need to be at this time, and I notice that the members of the Farm Loan Board, and I apprehend that Secretary Mellon, who is ex officio member, knows that, and the Federal land banks are going to do business on a closer margin between the interest rate and the bond rate in the future, and the advantage will accrue entirely to the borrowing farmers, and I think the borrowing farmers, especially those who prefer to be in the Federal land banks, should be given the benefit of the higher loan limit.

Mr. WINGO. Is the conclusion to be drawn from your statement that it is impossible practically to fix it so that the joint-stock land banks will make the same rate of interest as the Federal land banks?

Mr. QUICK. I do not think they can make it and make a profit.

Mr. WINGO. You do not think it is possible for them to operate profitably on the one-half of 1 per cent margin?

Mr. QUICK. I think they can get the loans to make a profitable business at a higher rate of interest because of the fact that they can go out and get the individual loans, and they can select their territory, and they have certain advantages in operation that enables them to get from the farmer a higher rate of interest. One reason lies in the fact of the delays that come through the operation of the farm-loan association—the farm-loan association operation is not as rapid as that of the joint-stock land bank.

Mr. WINGO. Are you really not making an argument which leads to this logical conclusion, that the joint stock land banks, having less red tape, making

larger loans with a less unit of cost—in other words, they can make a \$15,000 loan as cheap and really cheaper and with less red tape than a Federal land bank can make a \$1,000 loan? Does not that mean, as a matter of fact, that by their making these larger loans above \$10,000, by reason of the lower unit cost, they can make profit, whereas if the Federal land banks were confined to small loans with all the delays that they have through the association, there might be a loss, or, anyway, an even break with the Federal land bank, whereas there would be a profit with the joint stock land bank; in other words, does not the cream of the business guarantee a lower expense and resulting higher profits?

Mr. QUICK. They do not get the cream of the business in Iowa. The farm loan associations get just as good business in Iowa as the joint stock land banks.

Mr. WINGO. That is one of the arguments in favor of this proposition, that the joint stock land banks refuse to take anything but the cream of the business. That is one of the arguments they are making in support of this proposition.

Mr. QUICK. The fact of the matter is that the lenders outside the farm loan system in Iowa, while they grant a larger proportion of the value of the farm than the Federal land banks do, owing to the fact that the Federal Farm Loan Board refused, refused very wisely, to follow up the expansion of land values in Iowa. We made a rule that we would not loan over \$100 an acre on any Iowa or Illinois farm. No matter if they might call it worth \$400 an acre it was not worth more than \$100 to us. That was the Federal land bank. I do not know what the rule is as to the joint stock land bank.

Mr. WINGO. The same rule, I thought.

Mr. QUICK. But that is not important where a man has 160 acres of land. The joint stock land bank can loan \$100 an acre on the whole 160 acres, while the Federal land bank would be confined to \$10,000, no matter how large the farm is. The loans are not any better in the joint-stock land bank, but they are large and they can more nearly meet the needs of the farmer.

Mr. STRONG. Mr. QUICK. Is it not true that because of their ability to make loans quickly and because they do not require but 5 per cent dividends, that they get sometimes a better class of loans from the men who want to make them quickly?

Mr. QUICK. I do not think they get any better class of loans.

Mr. WINGO. If what Mr. Strong said it true about that superior system, why should this Federal land bank be permitted to go into this red-tape system?

Mr. QUICK. Because they get a lower rate of interest.

Mr. WINGO. That is the only incentive?

Mr. QUICK. I think that is the only incentive, unless the statement is true here that the joint-stock land bank exact commissions from them that are not allowed.

Mr. WINGO. That is not permitted. That might be an isolated case. You would not permit that on the board, would you?

Mr. QUICK. But with 150 land banks, it might occur quite extensively.

Mr. WINGO. The national bank might occasionally be able to do that without the Comptroller of Currency catching on to it, but when an evil becomes anything like generally prevalent, it is bound to be suppressed.

Mr. QUICK. The advantage that the joint-stock land bank has, practically, over the Federal land bank is that when you get above a \$10,000 loan limit the competition between the Federal land bank and the joint-stock land bank ceases and the joint-stock land bank has the field to itself, except competition from the farm-mortgage bankers. The competition ceases, and he has the field to himself. I do not think that is a good thing.

Mr. BLACK. Mr. QUICK. You spoke of the \$100 limit in Iowa, which would mean a valuation of \$200 an acre. That would finance a farm for 100 acres under the present law, not counting the improvements. Do you not think it would be wise for the Farm Loan Board to start out on any policy that would violate the limit set in the Iowa situation?

Mr. QUICK. No, I do not think so. I think that when a man has mortgaged his farm for \$100 an acre he has got enough load on his hands without taking on any more.

Mr. BLACK. That was the thought I had. There is this danger, it seems to me, in increasing this loan limit, the extension of land values, which you mentioned as being not a desirable condition, would be promoted, would it not, if Congress by enactment of legislation permits the financing of land values

at a lower current interest rate than generally prevails—will not that have a tendency to increase land speculation, to inflate land values and make it more difficult for the man of limited means to become a home owner?

Mr. QUICK. Nothing ever happens that benefits society. That is not capitalized in land values, a church, a railroad, a good town. Honesty and morality on the part of your people, industry—every good thing is capitalized in land values, including the benefit of the Federal Farm Loan System. But I do not think we ought to stop progress for this reason.

Mr. WINGO. I remember an instance that three men, all of them cotton planters, that I happened to be thrown with, not in my district or even in my State. But we were old boyhood friends. They were complaining about the limit on the farm loan, and by inquiry I discovered that all three of them already had immense holdings of land, and I suggested to them that "You gentlemen are land poor already." Each one of them was contemplating the purchase of more land if they could get the money, and I suggested to them if they would sell off their surplus holdings and pay the debt they owed the private mortgage company, instead of trying to transfer it to the Federal farm loan system it might be better for them. But each one of them said that they had fine lands that were bound to increase in value. They were speculating in farm values; they were not wanting money for the purpose of improving farm homes in America. They wanted to use the system for the purpose of further enhancing land value by having the system finance them in their speculation in the future increase of land.

If you raise this limit, will not that tendency be accelerated?

Mr. QUICK. I do not think so. You will not remove the limit where the limit is established per acre; you will not make that any higher by a law which is proposed here.

Mr. WINGO. You do not catch the point. These men will go out and buy other lands. I have got to find my first case, so far as cotton planters are concerned, where the planter was complaining about the limit that he did not already have enormous holdings and could very profitably reduce his holdings and operate his farm plant more profitably.

Mr. QUICK. A \$10,000 loan had not been very influential in making him a land monopolist of this sort. The land holdings must have increased anyway, because the most he was entitled to was \$10,000; and if that is all he got, I do not see how he could have obtained those immense holdings because of that.

While I was a member of the Farm Loan Board a man came up from Memphis, Tenn., to see us. He organized a joint-stock land bank. The whole thing was new to us, and I said to him, "How many loans have you in this?"—he was asking for permission to issue bonds. He said "Two loans of \$50,000 each." I said, "Do you mean to say you have only two loans for this \$100,000 issue of bonds?" He said, "Yes." "What is to prevent you from coming back with one loan and issuing bonds against it?" And he said, "Nothing; and if there is not anything to stop me the next time I come up, I will ask for \$300,000 issue, and I won't have but one loan"; and I said, "We will stop you." And we did stop him.

But the \$10,000 loan or the \$20,000 or \$25,000 loan at the price of your good farm lands down there would not make any man a land monopolist.

Mr. WINGO. I can show you a farm that is as good as any in Iowa that you can buy at \$50 an acre.

Mr. QUICK. Even at that your \$25,000 loan is not going to make a man an immense land owner.

Mr. WINGO. And every man who has had this farm has gone busted, as it is too big an operation for one man.

Mr. SROOG. Suppose you apply that policy which you apply to the farmer to a business man, saying, "Your credit will be limited to a certain amount," when he comes and wants to get more credit you say, "No; you can not develop. Go and sell part of what you have."

Mr. WINGO. That is done every day by the bankers. You are proposing to encourage by legislation that which the private banker through a selfish interest in the industrial world curtails every day. Any man who has sat behind a desk in a bank knows that his hardest task is in restraining men from venturing along speculative lines instead of being satisfied to finance their productive activities.

Mr. SROOG. I do not know anything about that, as I have always been on the outside trying to get loans.

Mr. WINGO. You have had some observation, however. But here is the point I am getting at, Mr. QUICK: You have just stated where is the limit. You said, of course, when they come up with the \$300,000, the whole thing is the question of where is the proper limit. Have you ever studied statistics which would show you the average value of the American farm if you eliminate the large landholders who are not themselves farmers?

Mr. QUICK. No; I do not know where such statistics can be had.

Mr. WINGO. You can not get them from the census reports?

Mr. QUICK. I have never seen any.

Mr. SROOG. But you know enough from your observations that the most prosperous farms and those that are doing more to develop high-grade agriculture is the small farm home owner owner himself and not the absentee landlord?

Mr. QUICK. The absentee landlord, of course, is the fundamental evil of society.

Mr. WINGO. And that is the thing I am afraid of.

Mr. QUICK. I do not think you will increase it by raising the loan limit up practically only to where it was when you passed the act.

Mr. WINGO. Of course you are aware of the fact that the enemies of the system practically put on that \$10,000 limit and knocked out the \$3,000 limitation. Those who really wanted rural credits do not care about taking care of the big plantation owner at all; that was not the thought in the minds of the rural credit supporter. His thought was that the growing tide of tenantry should be halted. He knows that the small farmer can not weather the least little bit of crop failure like the big wheat grower. The small farmer has not anything except the extortionate rate of interest, and the idea is, "We will go out and we will try to increase the number of farm-land holders in this country, the small fellow who lives at home and raises a family, who sits on his jury, and who is regarded as the best citizen, not the absentee landlord, who is sitting in a bank and who owns a farm which he is trying to make enough money in town to support."

Mr. QUICK. I heard that talk about increasing the number of landowners through the mortgage system. I never believed in it.

Mr. WINGO. Is not that true that there are a whole lot of men connected with this farm-loan bank system who do not belong in it?

Mr. QUICK. I never believed it was possible to do it that way. The value of land constantly tends to exceed the rate of interest that you have to pay to buy it. To-day in the older and well-established regions of the United States the rent of land runs from 3 to 4 per cent of its selling value. How is a man going to borrow money at 6 per cent or 5 per cent and pay out on the purchase of that farm? To put the tenant farmers in the United States in the position of farm owners, you have got to adopt a different system than any scheme farm mortgage. I am for it, but I am not discussing that to-day.

Mr. WINGO. Instead of trying to figure on these bigger things, why not go to digging down toward the roots?

Mr. QUICK. It can not be done by the farm-mortgage system—the Federal farm loan act.

I recently saw a statement in an agricultural bulletin which said that the Federal farm loan act had operated in the case of 5 per cent of the cases in putting farm tenants in as owners, and I think that is as much as you can expect—in the case of one in twenty it has had the effect of putting the farm tenant in the position of owner. I think that is creditable when you consider the small amount of rental value as compared with the interest cost to buy it.

When you go to work to convert the farm tenants of the United States into farm owners, I will be glad to talk with you about some system to do it. But do not expect to do it with the farm-mortgage system.

Mr. WINGO. It can not be done on a system of profits. If the public welfare is to be conserved by trying to make home owners out of these tenants, the public has got to foot the bill, and you can not do it by an agency that is all the time figuring on the margin of profit or what differential will represent the cost.

Mr. QUICK. It does not make any difference whether you figure on his profit or not, as long as you sell bonds to people who buy for the sake of getting interest—you can not finance the purchase of land where the rental value of land is 3 or 4 per cent and the interest a man will pay is 4 or 5 per cent.

What happened when the farm loan system was organized? The farm loan system has been so busy trying to find money for actual farm owners who are

in keen distress for money that they have had all they could do to find money for them without entering into any scheme for doing the impossible.

We have done a number of really good things in the way of putting tenants on farms, but I have not time to tell you about it.

Mr. BLACK. Speaking of the situation that has obtained in Texas, I think a great many farmers have been prevented from becoming tenants. They were home owners with mortgages on their land. Now, they have been able to refund these mortgages in the farm-loan system upon the amortization plan and pay them out, and I feel quite sure that in many cases they could not have done that but for the ability to refund in the farm-loan system.

Mr. QUICK. The poverty-stricken farmer is all the time trembling on the verge of going back to the state of a tenant. The farm-loan system has been a great dam that stood between him and eviction; it has checked the rising tide and it has done it well.

Furthermore, the farm-loan system attempted to stop land speculation in Iowa by establishing a minimum value per acre. But it got away from everybody and has been the most ruinous thing that ever happened to anybody since I was a boy living there.

Mr. WINGO. Is there anything in this bill that will help the landless man to get land?

Mr. QUICK. No; except that perhaps one case in twenty and that is not a negligible minority at all. But there is a plenty in it that will continue to keep the farm owner from degenerating back into a tenant.

Mr. WINGO. If you had a son starting out to become a home owner, would you advise him to start out and buy a farm plant on which he would have to have a \$15,000 loan to start with?

Mr. QUICK. It would depend on the plant and how much cash he put in.

Mr. WINGO. Would you tell him to go and purchase a farm if the initial proposition to work out is that in order for him to handle it properly he would have to plaster it with a \$15,000 mortgage?

Mr. QUICK. No, I think I would advise him to go where land was cheaper. But these places are becoming scarcer, and I have seen many cases in Iowa and in Illinois where a man working as a tenant succeeded in a few years in buying land and paying for it. But he has got to be a good man. While, as a matter of fact governmental institutions should be adjusted to the pace of the average man, not for the financial genius. The man who starts out to buy a farm these days and pay for it anywhere has got a hard job before him, and he needs all the help he can get, and he ought not to be confined to 50 per cent.

Mr. WINGO. If that young fellow, in order to start, without passing this bill, and get an expensive farm in that region where land values are highly developed, he is to be compelled to go to the private loan company or the joint stock land bank, if we pass this bill. The contention is we would save him one-half of 1 per cent.

Mr. QUICK. Yes; or more than that.

Mr. WINGO. That is what it actually is at present?

Mr. QUICK. The Federal farm loan rate of interest is going down; it has got to go down.

Mr. WINGO. I am talking about the present. Of course, if one goes down the other has got to go down. The joint stock land rate will have to go down with the other, will it not; will they not be compelled to go down or go out of business?

Mr. QUICK. Yes—they can continue to get business if you confine the operation of the Federal land banks to the farm loan associations.

Mr. WINGO. That is the answer that I wanted to provoke from you. If we put them so they can compete with the joint stock land bank do you think they will drive the joint stock land bank out of business?

Mr. QUICK. Oh, no, they will not put the joint stock land bank out of business, but I would like to see the loans \$10,000 to \$25,000 placed in the field of competition.

Mr. WINGO. You want to put them on a competitive basis?

Mr. QUICK. Yes; I do want to put them on a competitive basis. Now comes the question of the agent. I can not quite get the thought that the agent would result in any lessening of the security of the Federal farm-loan bond. Under the agency system as provided for in the bill there would still be 5 per cent put up. The new borrowers under the agent in each Federal farm-loan district would become a new class, practically on the same basis as if

they all belonged to a great big farm-loan association. The idea that the Federal land bank has got to fall in order to make that available is, to my mind, a legal absurdity. The Federal land bank can resort to the stock when, by reason of conditions, it is needed to save itself from failure. But, after all, under a system that is organized as ours is, with only 50 per cent of the selling value of the farm and 20 per cent of its permanent insured improvements such a resort to the stock is unlikely. On that basis we have gone through a war; we have gone through an era of drought and crop failure; we have gone through the wildest era of farm-land speculation which I have ever seen, and never yet has that demand on the ultimate borrower to sacrifice his 5 per cent been invoked, so far as I know. I believe that there was down in Texas a start to invoke it against one association. But the fact of the matter is that under the system we have that 5 per cent guarantee as a very fine thing theoretically, it is not really needed, and in the bill as drawn it is just as available to the bank and just as valuable as it would be to the association.

Furthermore, through the agency system you would avoid the very thing that takes place in many places where a whole lot of the dividends are soaked up in the local expenses of the association. In many associations we avoid that.

On the whole, I think the agency system would operate more economically.

Now, the association is an entity; it has its choice over its own members. It does not need to elect anybody it does not want to. I remember of one instance where the members of a church organized a farm loan association of their own. They had a perfect right to do that. They did not want anybody outside of the church in their association, and I do not blame them. They were a little clan by themselves, yet they had occupied the field of the local association.

It is a very expensive thing for the Federal farm loan system to go ahead and organize new national farm loan associations all the time, and when the association becomes moribund the moment it is formed, and the only active thing in it is the secretary-treasurer, and he very frequently becomes inactive, the need is great of somebody to go past the association and make loans that are demanded. In some cases in Iowa and elsewhere the commercial bankers were the loan agents, before the passage of the farm-loan act. I did not think that the Farm Loan Act would operate in Iowa, at all, because their interest rate, when we started, was 5 per cent. But the amortization feature was so good that they began coming into the association and actually paying more interest on the amortization plan than they had been paying under the old farm mortgage system. It was attractive to them, and that was gratifying to me. But the Federal land bank of Omaha, whether wisely or not—I think it was the wisest thing they could do—began to operate through farm loan associations organized by the local banker. Why did he organize the association? Because it was a fine thing for him to have an association in his bank, it was a help to him. I do not know whether our Eastern members realize the extent to which the farmer dominates the bank in Iowa, where agriculture is the sole great interest. The deposits of the farmer there is the most important thing for the town bank.

The secretary-treasurer is the local banker. He uses the association for the purpose of making it advisable for people to come into his bank. He is able to manipulate the matter in such a way that he can pretty nearly prevent the organization of another association, but the fellow who is not a depositor in his bank is not getting as good service as the fellow who is.

If you will give the Federal Land Bank of Omaha an opportunity to make loans through agencies—the Federal land bank can not make them fire the secretary-treasurer, can not really make them do anything. And as the secretary-treasurer is about the only man who is active in the system, when he gets into the control of the association he is a pretty hard man to dislodge, and I believe that the agency system will give just exactly the same financial solvency as you have now, and that the system will take better.

I have heard talk about animosity to the Federal Farm Loan Associations on the part of the Federal Farm Loan Board. I have never heard anything of the kind and have never seen anything of the kind. I have heard one member of the board say he did not believe it would work, and the events proved to me he was right. But the Federal Farm Loan Board, I think, to-day—every member of it—take Mr. Gull; he is a dirt farmer, and he made his way up through farm-loan association work to a position on the Federal

Farm Loan Board. Take Judge Lobdell; he was a banker and lawyer in Kansas, but his only business outside of his present work is that of a cattleman out in western Kansas. I think that the board has been operated purely with the idea of serving the farmers and serving them as they are, through building a system so solvent, and so safe that it would appeal to the average investor from whom the real sinews of war come, and who after all, is the man to be protected through the operations of this bill.

When it comes to the organization of banks, we have discussed that to some extent.

If I am right in my analyses in the situation in the national farm loan associations, there is no such thing as democracy in the system, and can not be, because the borrowers themselves do not function and they never will function. They do not care about the management of the bank enough to function, except as stimulated to it by some sort of agitation on the part of people who have private ends to accomplish. The thing not being capable of being run by the borrowers themselves, the thing being a matter that the borrowers themselves could not run anyhow, it has got to be run by administrative officers, and there is nothing undemocratic in giving administrative officers the necessary powers to do the tasks before them. The way to run a city, in my opinion, is to have elective officers to appoint somebody to run it. There is nothing undemocratic in that; it is just simply the common sense way of dealing with it, and I am simply trying to deal with the matter in a spirit of common sense. Instead of confining myself to what the joint commission to Europe found out in 1913, I have found out a lot about it since then myself.

When it comes to the central selling agency, I want to tell you the history of what we did when we came to face the matter of selling bonds. I was a westerner who had moved to the East and had been interested for a long time in agriculture and was prepossessed in favor of the cooperative farm loan association and had been in control of the field in Europe. Judge Lobdell was a western banker and lawyer and cattleman. Captain Smith was a very excellent farmer from Iowa. Secretary McAdoo you know; and Mr. Norris was the former president of a trust company in Philadelphia, a man who had distinguished himself by the public service of an unselfish character.

Presently, after we had made our tour of the country and located the banks and organized a lot of farm-loan associations, these loans began coming in and the time came when we had to make an issue of \$100,000,000 of bonds, and Judge Lobdell and myself were strongly in favor of some system by which we could sell these bonds ourselves—build up a selling agency. I do not remember what Captain Smith's view was. Mr. Norris took the view that it could not be done, and he showed us why; and when I listened yesterday to the talk about giving the farmers bonds to sell for themselves it reminded me of the Irish drill sergeant who had an awkward squad which he was drilling. "Present arms!" he commanded. "Good God, what a present! Take two steps to the front, turn around, and take a look at yourselves." [Laughter.]

If those gentlemen who are talking about giving the farmers bonds to sell for themselves would take two or three steps to the front and turn around and look at themselves, they would see what a funny bunch they are.

A French woman one time said to a friend about an acquaintance who had committed some indiscretion, "It is worse than criminal; it is positively silly." [Laughter.]

This thing of giving farmers bonds to sell for themselves is worse than criminal; it is positively silly. The banks can not sell bonds themselves. We found that the Federal land banks can not sell bonds. They did not know the bond business. They are made up of loan men. They were selected because they were loan men, and because some of them were farmers; and, furthermore, the banks of Wichita, Houston, Columbia, Spokane, Berkeley, St. Paul, New Orleans, Baltimore, and Louisville could not sell bonds enough to wad a shotgun, anyhow, no matter whom we had as officers. You have got to go where the bond buyers are in order to sell bonds. The fact of the matter is the bonds are bought mainly east of Lake Erie, and the people who sell bonds have a list of bond buyers and they are wise enough not to publish those lists. We did not have any lists of bond buyers; we did not know who would buy bonds and who would not; and the idea of beginning the organization of a bond-selling business and of finally accumulating these lists of bond buyers to whom we could send our men to sell bonds in the time we had at command was so absurd that we had to abandon it.

I think the greatest single idea, the greatest single method that was brought there was by Mr. Norris, now governor of the Federal Reserve Bank of Philadelphia. He told us things that forced Lobdell and me to give up. We could not suggest any way out. And what did we do then? We went to Brown Bros. & Co., Lee, Higginson, and the big bond retailers, and we asked them if they were interested in this matter of selling these bonds. The gentleman to whom we first talked was a man from Baltimore, Mr. Griswold, and he said, "I was interested in this matter when you first mentioned it from a public point of view. But now you have shown me what it is, I am interested from a financial point of view."

We found that these men, from their knowledge of the bond business, could sell these bonds for a fraction of the cost to us had we undertaken to build up a bond-selling system and to go out and sell bonds. So we made this arrangement with them; and then, feeling that we did, that Congress had some interest in the law it passed and that it was vastly better for us to work in harmony with Congress rather than to get at loggerheads with Congress and spend our time at Cosmos Club and the Willard Hotel cussing congressmen, we sent for a lot of congressmen who were interested, including some members of this committee, and all of them who would come came and looked it over—both Members of the Senate and House. We said, "Here is our predicament: We have not any bond market, and we do not know where to find the bond buyers, and we do not like to trust the matter to some new agency and risk the whole future of the Federal Farm Loan System on a failure. What do you think we had better do? Here is our contract that we are going to enter into. Do you think we had better do it, or not?"

And I do not think any congressman who was called in failed to approve the system.

Mr. WINGO. Well, I was one Member of Congress who protested vigorously against the bond syndicate.

Mr. QUICK. As a matter of fact, we went ahead and built up the system. In order to carry on that system, which I think is the best system possible, unless we do go ahead and build up an agency system of our own, which is an expensive thing and compete with these bond sellers, there has got to be a central agency, for the reason that bonds constantly tend to vary in value on the market, by reason of your New York, New England, and Pennsylvania trust company and other laws; and, oddly enough, they favored the New England bank. If it is desirable to keep the bonds at a parity all over the United States—I do not know that it is, but I think it is, at least that was the idea of the board—a central selling agency was found necessary and a central agency was built up.

I have not analyzed this particular plan here, but we were obliged to build up a central selling agency. The banks could not sell independently, because as soon as they began to sell independently we found them competing with each other in the various bond markets, and the only way to prevent a kind of financial anarchy in the system was to have a central selling agency, and in some form we ought to have it, and I think it ought to be legalized and incorporated.

I think that a single bond ought to be issued. If the banks were all independent, the value of all the bonds is just the same.

Mr. WINGO. Suppose you organized a central bank. Would they not be up against the same thing?

Mr. QUICK. They are always up against the same thing until they go to work. We always gave the banks a lot of bonds to sell for themselves, but they never could sell them; they can not sell bonds; they are not that type of man, and the type of man to sell bonds is not the type of man to make loans and appraise lands.

Mr. WINGO. Did they ever try to?

Mr. QUICK. Yes, they did.

Mr. WINGO. When?

Mr. QUICK. Every issue.

Mr. WINGO. My information was that each issue was turned over to this syndicate, and when anybody wanted to buy you had to pay the syndicate price to the bank and the bank had to have a turnover.

Mr. QUICK. There was always a division of selling between the bank and the syndicate, with the bank having the best of it in the matter of terms.

Mr. WINGO. Was the charge true that was made that when you had bought through the bank you had to pay the syndicate price?

Mr. QUICK. No. The commission went to the bank, and the idea always was to give the bank the opportunity to sell as many as it could.

Mr. WINGO. I know I had Members of Congress protest to me. They said they had to go to the syndicate and could not buy from the banks at the syndicate price.

Mr. QUICK. They could buy from the banks at the syndicate price, but the banks got the commissions.

Mr. WINGO. Is it not a matter of fact that you claimed at first, Mr. Quick, that you were up against it on account of the unsettled conditions you had to make this arrangement; and then you got ready for the next issue that you threatened to sell independently, and this syndicate group said if you did they would unload and depress the market?

Mr. QUICK. I never heard of it; I do not think it was true. The syndicate would for their own sake protect their own holdings. The conditions were unsettled, but that was not the reason why we organized this syndicate; it was because we had \$100,000,000 of bonds to sell and did not have any bond organizations for selling them.

Mr. WINGO. I know I was exasperated to find at the time you had a very hard time disposing of them; protest was made to me that men could not buy what they wanted.

Mr. QUICK. I do not know anything about that.

Mr. WINGO. And always had to pay a premium?

Mr. QUICK. They always had to pay the premium, but the premiums on the bonds sold by the bank went to the bank. There was always competition between the banks and the syndicate.

Mr. WINGO. I know that one Member of Congress came to me and said, "I have subscribed for \$15,000. My allotment is only \$9,000," and he had to go to the bond market for the rest of them. That was at the time it was contended that the market was bad.

Mr. QUICK. There is another matter I want to speak of, and then I want to quit.

Mr. STEVENSON. There is a very important section of this bill, on page 15, asserting among other things that the loans may be used for, subdivision (d), "To liquidate indebtedness of the owner of the land mortgaged." I want to get your opinion about that.

Mr. QUICK. We had that in the original act, that we could use the money to liquidate any indebtedness existing at the time of the organization of his association. I think it was something like that. I have not talked with anybody about the reasons for inserting this present arrangement, but I suspect it was put in there because so many of the poor fellows are in debt and they need another act of indemnity. I do not know about that.

Mr. WINGO. If you adopt that, will you not practically eliminate (a), (b), and (c)? What is the need of the provisions (a), (b), and (c) if you put (d) in? If the banker happens to be the secretary-treasurer, and he says, "I will make you a loan from the bank for 30 days. Then you can make application and come in under (d)."

Mr. QUICK. That is assuming a state of affairs that I do not think would exist very often, but I think it would exist sometimes.

Mr. WINGO. It would exist in the minds of the shrewd banker.

Mr. STEVENSON. You take a fellow who buys an automobile for \$1,000, and then gives a note for it; and then applies for a farm-loan mortgage and gets it because it is existing indebtedness.

Mr. QUICK. I am not here to defend that.

Mr. STEGALL. Why not wipe out all these other things and put it on that basis, and then they could go out and put in all they want.

Mr. WINGO. Why have any limitation at all? If you are going to say make it for indebtedness, then you can get around it pretty easy.

Mr. QUICK. It seems to me it opens the door pretty wide.

Mr. WINGO. I have been told it is the object to open it pretty wide. One man wants to borrow the money and pay for the operation for appendicitis on his brother-in-law.

Mr. QUICK. I do not know just how that is in this bill, as a matter of fact.

Mr. WINGO. And they said the board held it was not for agricultural purposes.

Mr. QUICK. I will tell you what I would suggest in answer to that question, seriously: I suggest, if you wish to amend that, that it ought to be amended in the light of the fact that the large number of farmers, through the depression

of the last three or four years, have become involved in debt, and whether that provision is correct or not, a provision ought to be provided for under which their debts that are burdening them and destroying them economically ought to be taken care of.

Mr. WINGO. For instance, take a cattlemaster; if he got in debt in the operation of that cattle ranch by reason of, say, an epidemic that wiped out his live stock, either one of disease or finance, that is a farm operation there; and if the operation has shown that the possible restriction is too great, then we could draw some kind of an amendment to cover it—"incident to his farm operations or otherwise," something like that.

Mr. QUICK. There are a whole lot of farmers who ought to be helped out of debts, even if they are foolish debts.

Mr. WINGO. Say the cotton farmer acted imprudently when he held his cotton, and then finally had to sell it at such a loss that he has a debt hanging over him. That really occurs out of the operation of his farm. But the fellow who made a debt for the purpose of buying oil stocks in Texas or in Arkansas, he ought not to have the benefit of this public-spirited institution to help him out on the speculative losses.

Mr. STEVENSON. But, supposing he did that, do you think he ought to lose his farm and ought not to have the opportunity to borrow money under this system for the purpose of saving his farm?

Mr. WINGO. Do you think that the farm-loan system is created for financing the fellow who has been speculating in oil?

Mr. STEVENSON. No, sir. But I say if a farmer has become involved in debt that it is to the interest of the country to let him have the money under this amortized plan to save his farm and continue a producer.

Mr. WINGO. All right; if that is true, you can conceive of 101 conditions. Will you hold it to "agricultural purposes," or just leave it open?

Mr. QUICK. One more thing, and then I am done. I want to talk about the bond market a little bit. We talk about the effect of this increase of the loan limit on the volume of bonds. The ability of the farm-loan system to take care of the farm-mortgage indebtedness of the country is limited by the willingness of the bond market to absorb its bonds. That is true of the combined issues of the joint stock land banks and the Federal land bank bonds. I think that the Federal farm-loan system is criticized for going too slow. But, as a matter of fact, it has built up a more formidable volume of business than any financial system of the kind in the history of the world in a very short time, and I am inclined to think it might have gone even faster at times. But the tendency always has been to avoid crowding the bond market.

The joint-stock land bank bonds and the Federal farm loan bonds appealed to practically the same market, and they are in competition with each other. I think they ought to be put in competition with each other up to \$25,000 in the size of loans, and the question of whether the joint-stock land banks shall make these loans or the Federal land banks shall make them is one that I think ought to be left to the industry itself and not be controlled by act of Congress. In other words, limiting the Federal land bank loan below what is desired by a lot of farmers who greatly need accommodation.

The associations, as I have said, are not cooperative and can not be made cooperative. I, therefore, am in favor of the agency system. I am not in favor of abandoning the farm loan association, and I do not think any member of the board is in favor of abandoning the farm loan association or ever was. There never was anything like that said to me when I was on the board, and I have never gleaned any such idea from any member of the board since. I am in favor, therefore, of the agency system. I think it furnishes exactly the same security for the Federal farm loan bonds that others do. I do not think it is necessary for a bank to fall before it calls in the 5 per cent margin of security. I believe the organization of the banks as stated in this bill have a better organization for the permanency of the system. I do not think that any such thing as democratic control is possible in such a financial system or is desirable, and I believe that so far as the principles of democracy apply that they apply fully where responsible public officers are appointed by the President of the United States to carry the thing out.

I believe in some central selling agency. I have not analyzed this, and I think it ought to be incorporated in a single form of bond issue, for the reasons I have stated.

That is all I have to say.

Mr. STRONG. You have not addressed yourself directly, as I understand it, to the permanent organization feature of the bill, which is a change from the original law, by letting the farm loan associations electing three directors and the Government through the Federal Farm Loan Board appointing three directors, the six to choose the seventh to form a permanent organization, is different from the present law.

Mr. QUICK. If I were a Member of Congress I would vote for the present bill. Mr. STRONG. The thought suggested is this: With the organization as contemplated by the present law, it places the management of the system in the control of the borrowers.

Mr. QUICK. Unquestionably.

Mr. STRONG. And whether or not that would not destroy the confidence of the bond buyer—

Mr. QUICK (interposing). I discussed that. I suggested that as a matter of fact the borrower never will control. The borrower's whole interest in the matter lies in that little matter of the fluctuations of the dividends, because he has invested his 5 per cent and it is there and will stay there, and the future rate of interest of which the witnesses have spoken is of no consequence, because he has already borrowed; he has no further transactions for 33 years, and you can not get out of the borrowers in the farm loan system anything like real interest in its operation. And when that interest is stimulated, it is stimulated by persons having one or two motives: First, a patriotic motive, and, second, a selfish motive. The patriotic motive is probably no more patriotic than that of the member of the farm loan board, and the selfish motive is one which would probably result in an agitation for the control of the banks, which would tend to impair the confidence of the investors in the bonds.

I will say this, that if the Farm Loan Associations could or would do this, I would take a different view. But they are dead as soon as formed. I venture to say that not 10 per cent of them have had two meetings at which they have had a quorum since organized. That is not any kind of an organization to run a great national system; and unless you give them hoods, masks and a ritual, I do not see how you are going to get them interested. [Laughter.]

I thank you, gentlemen.

Mr. FLANNAGAN. Do you not think that the want of quorum among the associations is largely due to the fact that by rule of the board they are not allowed to use proxies?

Mr. QUICK. I think maybe the secretary-treasurer could hustle around and get proxies enough to vote, if they were allowed to use proxies. But if a man is not interested enough in his own investment and own loan to attend meetings himself, I do not know why he should be permitted to have proxies.

Mr. FLANNAGAN. Have you any idea why the stockholders of the national banks in the United States are allowed to vote proxies in annual meetings when they have not 10 per cent in attendance?

Mr. QUICK. I do not know about that.

Mr. FLANNAGAN. I can say that if 2 per cent ever had 10 per cent in attendance, it is a much larger proportion than the national banks have had, and it is because, in my opinion, the board has ruled that the members of the farm loan associations shall not use proxies.

Mr. QUICK. As I say, I think the secretary-treasurers who wanted to control or influence their associations could hustle around and get proxies.

Mr. WINGO. You seem to hold to the philosophy of Bill Nye, who said, "Human natur en human natur."

Mr. MANSON. Do you believe the stockholders of the Pennsylvania Railroad have ever had a quorum of the stockholders physically present at their annual meetings?

Mr. QUICK. I do not think it would take them very long to change their form of organization if they thought they would ever get that.

Mr. MANSON. You would not venture the suggestion of turning the management of the Pennsylvania Railroad over to the Government because the stockholders do not physically meet in a room at their annual meetings?

Mr. QUICK. I might not for that reason, but I would suggest having it turned over to the Government for other reasons. By the use of proxies the same degree of cooperation could be got in the farm loan system that you have in the Pennsylvania Railroad.

Mr. STRONG. Without objection, the committee will now stand adjourned until next Tuesday at 10.30 o'clock, when we will hear Governor Cooper. There is no objection.

(Thereupon, at 4.45 o'clock p. m., the committee adjourned to meet Tuesday, January 9, 1923, at 10.30 o'clock a. m.)

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES.

Tuesday, January 9, 1923.

The committee met, pursuant to adjournment, at 10.30 o'clock a. m., Hon. T. Frank Appleby presiding.

Mr. APPLEBY. The committee will be in order, and we will hear Governor Cooper.

STATEMENT OF HON. ROBERT A. COOPER, MEMBER FARM LOAN BOARD, WASHINGTON, D. C.

Mr. APPLEBY. For record purposes, please state your full name, title, etc.

Mr. COOPER. My name is R. A. Cooper, member Farm Loan Board.

Mr. CHAIRMAN and gentlemen of the committee, the bill that you have under consideration proposes to amend several sections of the farm loan act. I am not going over the details of each amendment. I will answer any questions that I can, and it will not interfere with me at all if you prefer to ask questions as I go along.

The first amendment proposed has reference to the expense of this system. The Federal land banks and the joint stock land banks are well able, from their profits, to pay the expenses of the system, according to our view.

Mr. APPLEBY. That is now paid by the Government?

Mr. COOPER. Only a part of it is paid by the Government. The Farm Loan Board expenses are paid by the Government. The compensation of appraisers and bank officers, which, of course, is the major part of the expense, is now paid by the banks.

In that connection, I would call your attention to the fact that the Government examines at Government expense the 68 joint-stock land banks. According to our view there is no reason why that should be. The national banks and every other institution examined by the Government is assessed so much to pay that expense.

Mr. FENN. They are private corporations, practically?

Mr. COOPER. They are private corporations, practically. Now, that is all there is on that particular phase of the subject.

Another amendment looks to the permanent organization of the twelve Federal land banks. That is a provision about which there is considerable contention. As you gentlemen know, under the law as at present written, the provision for permanent organization provides that the national farm loan associations shall elect six directors and the Farm Loan Board appoint three. It is argued that this is a wise provision, in view of the fact that the associations are the sole stockholders, or will soon be the sole stockholders. The stock owned by the borrower must be canceled when his loan is paid, and it is more, as we see it, in the nature of a guarantee fund than stock. He can not transfer it; he can not sell it. But it is held by the bank as collateral to his loan, and when his loan is paid it must be canceled—he has no choice—and it is canceled at par.

Mr. FENN. Is not the purpose of taking that collateral for guaranteeing the loan?

Mr. COOPER. It is for guaranteeing the loan.

Mr. STEVENSON. Is it not credited on his loan?

Mr. COOPER. Yes.

Mr. STEVENSON. Has he not a vital interest in it then?

Mr. COOPER. Oh, yes. I do not say he has not a vital interest. But that represents 5 per cent of the bank assets. Of course, 95 per cent of the loan is made by investors in the bank's bonds.

Mr. APPLEBY. In your opinion, is holding out 5 per cent sufficient to make him interested as much as he might be if his holdings were 10 or 15 per cent? The statement has been made here that the man has 5 per cent stock, after

he gets his loan, is not very much interested as to the amount of dividends, because his holdings are so small. Will he be any better off if he held 10 per cent of the stock?

Mr. COOPER. Of course, I imagine his interest in the bank would be increased in proportion to his stock holdings.

I would like to say that has been one of the difficult problems we have had. You can not get the stockholders to take an interest in the local associations—sometimes they do; in some associations they do take an interest, and the associations are rendering splendid service; in others they seem to take no interest. You can not get a meeting, and the records show that since the system has been organized not over 10 per cent have had a quorum at their annual meetings.

Our sole purpose, I would like to say, in suggesting this amendment is to furnish the best possible facilities for providing money to the farmer at the lowest possible cost. We believe that it is in the interest of marketing the securities.

I would like to state in that connection that this bill provides that the seventh director—and there has been a good deal said about that being somewhat camouflaged, though it was not intended to be camouflaged, I am sure—shall be an actual farmer, resident of the community. I can not conceive of a design to select a man who is going to be the willing tool of the Farm Loan Board or anyone else.

And I would like to say that I think every person, so far as I know, connected with the Farm Loan Board has but one ambition, and that is to make this system serve the purpose of its creation.

I want to say, also, that it is not the purpose of any amendment to destroy the association. The association, as I said awhile ago, has been one of our problems since I have been on the board. I want to give you a few illustrations, because I deal with the associations; that is my specialty on the board. There is one association in the State of Maryland where a few months ago a gentleman wanted to submit his application for a loan. The secretary-treasurer did not like him for some reason or other—I do not know why. The man made out his application, passed it in, and the secretary-treasurer refused to send it to the bank. That man has been deprived of the privilege of even submitting his application. It was taken up with the directors of the association. They said, "Well, the secretary-treasurer is looking after that; you will have to go to him." That sometimes happens. I do not mean to say that that is the general rule at all.

In other cases the secretary-treasurer is derelict. I could show you many instances where applications have been in the local association for six months, not sent in to the bank at all. Well, that is not giving service, and it is in that kind of an association where we would like to have some authority. We ought to be able to say to the secretary-treasurer, "You must get out, or else we will appoint a local agent in that community to give the farmers the service they are entitled to."

Mr. STEVENSON. That is a very different proposition from the one you put up here. I do not see very much difficulty about that. A very simple amendment to the law would give you the authority to say, where this loan association refuses to do anything or refuses to carry out these ordinary functions, "Here, we will appoint an agent who will." I do not see the objection to that, but I do see a good deal of objection to dehorning the association before they have ever had an opportunity to act on anything of importance except loans.

There is another thing I want to ask you about those associations being mutual: Is it not likely they are a pretty good safeguard against fellows coming in who ought not to be loaned?

Mr. COOPER. No; I do not think so.

Mr. STEVENSON. You do not think that is a proper check?

Mr. COOPER. I do not think there is any check there; that is, any effective check. We have to be constantly on the lookout to get the right kind of a man for Federal appraiser. He is the person on whose report the loan is made. He goes into the community, examines the security, and makes an examination of the standing of the applicant. Frequently in associations, as you can see, by going through the reports that we have up there in the office, a person applies for so much, and values his security so much, and the local committee says that is correct. It runs right along.

In other associations, for illustration, they have proven a material protection. That indicates to my mind that the association is really looking after the interests of its members and the farm loan system. As I say, where that is the case, there is no liquidation contemplated or suggested. They have proven a material protection.

Another thought right there: This amendment provides that the association may be liquidated only by vote of two-thirds of the stockholders. Should not they have that right? If they believe from their experience that they can serve their interests better through some other method, should not they be allowed to do that? Why hold them down to a plan of operation that they find is not working to their best interests when something else would be more effective, that is, a referendum to the borrower? The Farm Loan Board can not originate any liquidation of the association.

Mr. STEVENSON. If you will permit a question right there.

Mr. COOPER. Yes.

Mr. STEVENSON. I have not said very much about that feature of it. But by that liquidation of the association you increase the security of the bondholder after he has bought his bonds.

Mr. COOPER. I am glad you mentioned that.

Mr. STEVENSON. What effect would that have?

Mr. COOPER. Let us see what are the assets. It is the double liability of the stockholder in the association. You transfer that to the bank. It has been suggested here that that is not the same thing. But the bondholder, so far as he is concerned, will never ask that that provision be enforced until his obligation is impaired or its impairment is threatened. Then the bank would go to every stockholder in the entire bank on that double liability. That is all the association could go to.

Now, it may be that in some individual cases that might possibly work some injustice to certain borrowers. But that is their liability now and it is simply transferred from the association to the bank. The bondholder has the same security.

Mr. STEVENSON. I think you will find on careful analysis of it that he has not quite the same security. I have not said very much about that, but it is a live question from the standpoint of the bondholder. The bondholder, it is true, to start with, has, as it is now the security of the bank which issues bonds and all the other banks ultimately. Then it has the security of the liability of the loan association, or whatever it may be. You see its assets are the double liability.

Mr. COOPER. That is all it is.

Mr. STEVENSON. Of the stockholders. Now, on default of loans from that association the bank is still perfectly solvent; that personal liability of the stockholder to the association can be enforced?

Mr. COOPER. Yes.

Mr. STEVENSON. Although the bank is perfectly solvent?

Mr. COOPER. Yes.

Mr. STEVENSON. Because it is the default of the association and the personal liability of the mortgagor, and of to the stockholder, is to the association, and it can be enforced whenever the association is in default. The liability of the stockholder, which is direct to the bank, can be enforced also, but only when the bank is in default. Don't you see that it would involve the very much more likely thing, that you can enforce the liability of these stockholders and a great many members of the associations when the association is in default, when the bank is running absolutely clear? There is a great deal in that suggestion.

Mr. COOPER. Yes; but the bondholder is not interested until the bank is at least threatened with insolvency. The point is perfectly good.

Mr. STEVENSON. That may be true. But have you not unloaded the liability of these fellows in these associations, who are not doing their duty, on all of the stockholders of the banks? In other words, here is an association [illustrating] that is going all right; here [indicating] is another over here that is not, and you go onto that association and go onto its stockholders and make it make good. But your proposition now will result in none of them being crowded until the bank itself becomes impaired, and then you go on all of them, regardless of what association they belong to.

Mr. COOPER. Mr. Stevenson, under the present arrangement, each and every association has that liability.

Mr. STEVENSON. Yes.

Mr. COOPER. And if the bank ever becomes threatened with insolvency or its obligations impaired, then it would assess each and every association, and the association, in turn, would assess each one of its stockholders.

Mr. STEVENSON. That is exactly where the injustice would work. You would assess every association regardless of whether it by its default had brought about this situation or not.

Mr. COOPER. That is under the present law.

Mr. STEVENSON. That is under the present law, if the thing proceeded to a point where the bank itself was impaired, but if it does not proceed to that point you can stop it by going to the stockholders of the associations that are doing wrong; and under the other scheme you would have to wait until that impaired the bank, and then go on to everybody. That is the difficulty about it.

Mr. COOPER. You would not assert this double liability against any one under the new plan. Let us call it the "new plan," until the bank's obligations were impaired.

Mr. STEVENSON. That is right.

Mr. COOPER. But now, under the present law, if the bank's obligations should become impaired, you would assert that against every association and through the association through every stockholder.

Mr. STEVENSON. But, before the thing became impaired, here is an association that begins to go wrong down here (illustrating). The thing to do is to go on to it and make it assert this stockholder's liability against its stockholders, and thereby prevent the impairment of the bank, and the accumulation of liability, and thereby you reach the fellow who is defaulting.

Mr. COOPER. You would do that just as effectively under this plan, because when this individual stockholder has defaulted, there is his default liability.

Mr. STEVENSON. Oh, no—well, his liability, so far as the stock he owns, is there—

Mr. COOPER (interposing). Yes.

Mr. STEVENSON (continuing). But the stockholder's double liability would never be available until the bank itself went, too. Therefore, you would not have the recourse against the defaulting stockholder that you would through the association.

Mr. COOPER. Let us see, now. You would have in a particular association one or two defaulting members.

Mr. STEVENSON. Yes.

Mr. COOPER. And you would assess against the entire association this double liability for these two who defaulted?

Mr. STEVENSON. Yes.

Mr. COOPER. Now, why is that any more just to assess against those innocent members of that association than it would be to make a similar assessment against all the stockholders of the bank?

Mr. STEVENSON. Simply because that bunch of fellows are in that association and by their office they have let a couple of crooks get by, and that is the reason for the association.

Mr. COOPER. And in the other case they are all in the bank and have agreed to become liable.

Mr. STEVENSON. Well, they have to agree to get anything. You get, them, in other words, being liable primarily for every fellow in the system, whether he has had anything to do with his getting in or not; as the law is now he is only liable primarily in his stockholder's liability for the default of the fellow he has allowed to get in, either by his active cooperation or his default.

Mr. GOLDSBOROUGH. Does not the present system intend to prevent accumulated liability? Don't you get the defaulter under the present system better than you would wait until the bank itself became involved?

Mr. COOPER. I wish you gentlemen would bear in mind that that is not a proposition to abolish the associations; that is not the primary purpose of this amendment; it is not the primary purpose, by any means. But wherever in a community the association does not function, then we want to have some avenue for the borrowers in that community to get the benefit of the farm loan system. Now, where the association continues—and it will continue if the borrowers want it—you will have that same liability; you will have whatever advantage it gives you.

It is but a question of letting the borrowing farmers decide after they have tried out the thing, whether or not the association is better for them, or whether or not they can be served better through an agency.

Mr. MANSON, Governor Cooper, at the present time, is it not a fact that where there is default of one member of an association that the bank holds up and deducts from the dividends of the association the amount of that default, and thereby the latter is charged off on the books of the bank itself, instead of being carried as an association item?

Mr. COOPER. That is not universal; it is done in some cases.

Mr. MANSON. It is a pretty general practice, however, is it not?

Mr. COOPER. I am not prepared to say that it is general. I know it is general in some cases, and in other cases it is not.

Mr. MANSON. It can be done in all cases under the law, can it not?

Mr. COOPER. Yes, it can be.

Mr. MANSON. Then, an association will have the dividends represented by the stock of all of its members, while under your scheme of direct loaning there would only be the dividend of the particular member in default?

Mr. COOPER. Yes.

Mr. MANSON. And in instances would the dividend of the particular member in default be sufficient to cover or come anywhere near covering the amount he would be in default?

Mr. COOPER. Of course, it would not be as much—the dividend of that particular member would not cover it.

Mr. MANSON. This bill contains a provision providing for the voluntary liquidation of the association?

Mr. COOPER. Yes.

Mr. MANSON. And the bill provides that when the association liquidates the borrowers become direct borrowers and direct stockholders?

Mr. COOPER. The stock transferred to the bank.

Mr. MANSON. So that in that way the association endorsement automatically disappears by the disappearance of the endorser, does it not?

Mr. COOPER. Yes.

Mr. MANSON. Now, then, can you imagine any reason why borrowers who have already secured their loans and who can, by voluntary liquidation, should continue to maintain an association which will extend their liability as endorsers, when all they need is to vote to liquidate to get out of their liability?

Mr. COOPER. I can not imagine any reason in the world why if their security or the security of the bank is perfectly safeguarded under the other system that they should be required to stay in an association if they believe that association does not serve their purpose.

Mr. MANSON. My point is this, however: That this bill offers an inducement to them to liquidate, in that it offers them the opportunity to escape their liability as endorsers.

Mr. COOPER. Let me answer you by giving an illustration of what is actually in existence to-day. I do not suppose there is a better loan district in the United States than the State of Iowa. The fact is to-day that the joint-stock land banks are getting more loans of less than \$10,000 in the State of Iowa than the Federal land banks. Why? The Federal land bank is anxious to get those loans. There must be some reason for it; they must prefer the direct method; and I can not understand, gentlemen, why it is if the Congress gives to the joint-stock land banks the privilege of making a direct loan, if it gives the joint-stock land banks the same tax-exempt privilege, gives them the right to make a loan for \$10,000, why should you deny that same privilege to the mutual bank that is operated primarily for the benefit of the borrower?

Mr. MANSON. I am not arguing the question of whether this is a good thing or a bad thing. I was simply trying to get at the fact that the bill offers as an inducement to the borrower who has already secured his money the release of his liability or the liability of his association, as an inducement to liquidate; and do you imagine that when that fact is once well known that there will be any association that will continue in existence?

Mr. COOPER. I think that there is a gentleman here from the State of Iowa who is secretary-treasurer of an association. He is also the president of the association, and he has an association that will not liquidate. There are many of them that will not liquidate, because those associations are rendering a real service to their community. There is no desire on the part of anyone to liquidate an association like that, and I believe the borrowing farmers would

be willing to pay the additional expense because of the service it is giving. And I think that would run about 50 per cent of the associations.

Mr. STEVENSON. Governor, you asked a question just now that I do not think should go unanswered, for fear somebody would think it is unchallenged. Why were the joint-stock land banks given exemption from taxation and the right to make direct loans, and the mutual banks not given that right? In the first place, because you have stated the distinction in the word "mutual." They are mutual. It is a mutual pooling of the interests of these associations, and because you have an association with the liability which we have been discussing, which is superior to the individual liability of any one man, which gives the mutual bank a stronger position; and that being the institution which this Government established primarily for the small farmer, we desire to keep it so there will be no destruction of that mutuality and so that the liability of its association will not be deducted. So, in other words, it will have the additional liability behind its bonds, which evidenced by the fact that its loans are now being made at a less rate and its bonds are being sold at a lower rate than the joint-stock land bank bonds. We have restricted it and thereby we have made it stronger; and these very Iowa people who are here saying, "We want you to fix it so we can borrow in this mutual bank, because we can get our money cheaper."

Mr. COOPER. Yes; I think the mutual bank is in position to-day to furnish the cheapest money.

Mr. STEVENSON. So that they can loan money cheaper and so that their bonds will sell higher. There is no injustice in our saying that you have got to maintain this organization which has enabled you to do it.

Mr. COOPER. I think you have overlooked the fact that the cooperative unit in the farm-loan system is the Federal land banks. You have 12 banks, each guaranteeing the obligations of the other, and that is the thing that makes your bond sell; it is not the association.

Mr. STEVENSON. That is another advantage we have given them, and we have required them, on the other hand, to maintain a certain more direct liability on the part of the stockholders.

Mr. COOPER. I do not think you have any greater liability on the part of the stockholders, because the joint stocks have that same liability.

Mr. STEVENSON. They have like liability if these amendments were adopted?

Mr. COOPER. Yes; they have it as national banks and all other banks.

Mr. APPLEBY. Will you proceed with the discussion of your bill?

Mr. COOPER. The next matter is the loan limit. I have already referred to that, and that is all I care to say on it.

Mr. APPLEBY. Are you in favor of the increase in the provision of the bill covering the loan limit from \$10,000 to \$25,000?

Mr. COOPER. I would like to say now, answering for myself and not for the board or any one else, that I can see why that should be denied the Federal land banks when it is given to other banks. I can not follow that line of argument, and I want to say, in that connection, there seems to be on the part of some members of the committee the apprehension that if you increase the loan limit it will be to exclude the small borrower. There is nothing that the Farm Loan Board takes so much pride in as the number of small loans we are making, and the Federal Land Bank of New Orleans is an example of what they will do and what the banks want to do.

A few days ago we started an association in that district, with a total number of 25 borrowers, total loans approved the sum of \$21,000, average loan less than \$1,000; and that is something that we want to continue, because the Federal land bank, you must bear in mind, has not any motive for excluding the small borrower; it does not increase the salary of any one, it does not increase the compensation of anyone. But they are imbued with the idea of service to agriculture, and there is no danger of that being interfered with by increasing the loan limit, in my opinion, unless, of course, you should overload the market with the securities.

Mr. STEAGALL. Mr. Cooper, you say you are in favor of the increased maximum limit provided in this bill. You do not mean that, do you? You would not take off all of the limit?

Mr. COOPER. Oh, no.

Mr. STEAGALL. This bill is so drawn that a casual reader might not get its full meaning, but it is so drawn that it takes off all limit, because it provides

that the limit shall not be in excess of that which the joint-stock land banks are allowed to make.

Mr. COOPER. Yes.

Mr. STEAGALL. And, as a matter of fact, there is no limit in the law as to the maximum loans which may be made by the joint-stock lands banks, the only limitation being a rule of the board which, of course, might be set aside any day in the world. Not that I think for a moment the present board would do that, because I am sure they would not, but I speak of what would be possible under the law as it exists. What you mean to say is that you favor increasing this to \$25,000?

Mr. COOPER. Yes, I favor that. I favor giving the mutual banks, as I say, an equal privilege with the joint stock banks. I do not favor increasing it to the extent it is under the present law.

I think that the maximum loan ought to be determined by the average economic farm unit; that it ought not to be operated, the act ought not to be drawn so as to encourage large land holdings. I believe the salvation of the agricultural industry is in encouraging the small farmer. That is my own opinion; I am not speaking for others in that, but since you have the provisions for the larger loans by joint stock banks I can not see why you should deny that to the Federal banks.

I want to submit to the committee the letter which has been referred to, but which I believe has not been included in the proceedings as yet. When this bill was introduced I got copies of it and sent a copy to each secretary-treasurer in the United States along with this letter, asking his criticism of the bill (reading):

"For your information there is inclosed herewith a copy of House bill 13125 amending six different sections of the Federal farm loan act."

"This measure, the first in the nature of a general revision that has been presented to Congress in the last three years, was introduced in the House of Representatives by Congressman Strong, a member of the so-called "farm bloc" of the House, having been placed in his hands by the legislative agents of the Federation of Farm Bureaus, whose approval it has."

(The letter in full is as follows):

TREASURY DEPARTMENT,
FEDERAL FARM LOAN BUREAU,
Washington, December 9, 1922.

To all SECRETARY-TREASURERS:

You may find that there is inclosed herewith a copy of House bill 13125 amending six different sections of the Federal farm loan act.

This measure, the first in the nature of a general revision which has been presented to Congress in the last three years, was introduced in the House of Representative by Congressman Strong, a member of the so-called "farm bloc" of the House, having been placed in his hands by the legislative agents of the Federation of Farm Bureaus, whose approval it has. A tentative draft of it was fully discussed at a recent meeting of the presidents of the Federal land banks and approved by all of them except President O'Shea, of the twelfth district, who was absent on account of illness. The Farm Loan Board is inclined to approve the measure in its entirety, although in doing so it is obliged to compromise its views as to some of its provisions, which is always necessary in securing legislation as to which different views exist.

The provisions for permanent organization and increasing the loan limit seem to be the principal cause of controversy so far as it has developed to date. The Farm Loan Board would, therefore, be grateful for an expression of your judgment as to the matter of permanent organization and the increase of the loan limit as provided in the bill. It appears necessary to include both these provisions in order to secure the adoption of either.

You will notice under section 2 that the plan for permanent organization differs from the original plan in several respects. The board of directors is reduced from nine to seven. Under the provisions of this bill three will be chosen by associations, three appointed by the Government, and those six will annually select a director and chairman of the board for one year, who must be actually engaged in agricultural pursuits at the time of his selection. In event of a tie vote on the selection of this seventh director the farm loan commissioner is authorized to cast the deciding vote.

The method of electing the local directors is modified by requiring the land bank district to be divided into directors' districts instead of electing

all of the district directors from the district at large. The voting privilege is given to borrowers through agencies and provision is made that each association shall cast a vote for director in proportion to its voting strength. The present law leaves in doubt the question as to whether or not the association has one vote, or its voting strength. This provision is, as stated above, a compromise between the views of those who would have the majority of the board appointed by the Government and those who would have the majority elected by the associations. It seems to provide a fair degree of local representation and yet preserves a reasonable Government control, which is believed essential to the permanent maintenance of a market for farm loan bonds.

The theory on which a loan limit of \$10,000 to one person was based is that a loan for this amount should take care of the average farm unit. Experience, however, during the past five years seems to demonstrate that this amount is inadequate in a considerable portion of the United States, particularly in the corn belt and certain parts of the cotton belt. Hence the demand from those sections for the increase provided in the bill.

The board will be pleased to have a specific expression from you concerning these provisions, with any other comment you may wish to make on these or other provisions of the bill.

Cordially yours,

Member, Farm Loan Board.

MR. APPLEBY. Is there any farm bloc in the House?

MR. COOPER. How is that?

MR. APPLEBY. I say, Members of Congress do not know of any farm bloc.

MR. COOPER. It is so called. I hear it referred to as that; and then I understood that the farm bureaus had approved its introduction.

MR. STRONG. Just a moment. I introduced the bill, and your statement is absolutely new to me.

MR. COOPER. I say that is the information I had at that time.

MR. STRONG. The bill was drawn after a good deal of consultation among the members of the House from agricultural districts, heads of farm organizations, the presidents of the farm loan banks, and members of the Farm Loan Board, and a good many compromises were effected. The bill, as finally agreed to, was rewritten, I think, by Mr. Dickinson, of Iowa, from whom I received it for introduction. We had had an agreement that when it was finally perfected and agreed to, I should introduce it.

MR. COOPER. I say that was the information I had at that time.

My only purpose in introducing it was to perpetuate and to improve the farm loan system in the interest of the farmer who borrows the money and to have him borrow it with the least possible trouble and at the lowest possible rate; and that is the only interest I have.

MR. COOPER. And I want to say we indorse your bill for that reason.

MR. GOLDSBOROUGH. Governor Cooper, you have stated, as I understood you, that you thought that the ultimate interest of American agriculture was to discourage large land holdings?

MR. COOPER. Yes, sir.

MR. GOLDSBOROUGH. Well, do you reconcile that with your advocacy of increasing this loan limit from now \$10,000 to \$25,000, but more or less indefinitely?

MR. COOPER. I do not commit myself to that, except in this connection, if you give that to one part of the system—

MR. GOLDSBOROUGH (interposing). Oh, well.

MR. COOPER. Then, why not give it to the other? That is all.

MR. GOLDSBOROUGH. Then, instead of increasing your loan limit, what would be your view of the wisdom of decreasing the loan limit in the joint-stock land banks to \$10,000 in the ultimate interest of agriculture, as you have expressed it, as I understand you?

MR. COOPER. There is one objection I can think to that. As I said awhile ago, it seems to me the maximum limit ought to be determined by the value of the average economic farm unit. That might not be enough, and some do not think it would be enough, in some sections of the country. In my section of the country it is enough. I do not think we need any greater limit than that in my section.

MR. APPLEBY. Mr. Cooper, will you recess just a moment to allow Representative Sinnott to introduce into the record a letter which he wants to read?

MR. COOPER. Yes, sir.

STATEMENT OF HON. NICHOLAS J. SINNOTT, MEMBER OF CONGRESS FROM THE STATE OF OREGON.

MR. SINNOTT. Mr. Chairman, I thank you very much for this courtesy, but I desire to call the attention of the committee to a letter from Mr. W. J. Pinney, of Ontario, Oreg., date of December 19, 1922. Mr. Pinney has had a wide experience in agriculture and stock sections, and I believe he is very familiar with the financial needs of the farmer and the stock man, and I think his views are worthy of consideration by the committee, and I would like to submit his views by asking that this letter be made a part of your record.

MR. APPLEBY. If there is no objection, gentlemen, it will appear in the record at this point.

(The letter of W. J. Pinney is as follows:)

OREGON AND WESTERN COLONIZATION CO.,
Ontario, Oreg., December 19, 1922.

HON. N. J. SINNOTT,
Washington, D. C.

DEAR MR. SINNOTT: Interested as I am in ranching and the sale of land, you will appreciate that I am following the farm credits legislation very carefully. I am not advised as to your position on this subject nor do I know what bill or plan you favor. I am, however, going to give you some of the ideas which occur to me to be especially vital to the help the farmer must have to get a system of finance which will really help him.

In the first place, such a measure must not be tied up with too much red tape; it must be a business proposition pure and simple, just such a system or plan that any business man or bank knowing the conditions would use in handling the same business. An application for a loan must have definite action within a reasonable time, as the farmer cannot wait for financial aid to put in a crop or to purchase live stock for his ranch for an indefinite time, as many of them now do to get loans through the Federal land bank. With their farm loans it does not necessarily hurt them, as with this surely coming to them the old loan can be carried until the new one has been placed. With a credit to use for crop purposes and to buy stock for the ranch, such as cows and breeding hogs, a loan should be made within not less than 30 days.

In some of the reports on the measures proposed for Congress to act upon and recommended by different organizations I note that one plan is to have the local banks handle this credit for the farmer. I really cannot see that the farmer would or could be helped in the way Congress would like to help by this plan. The local bank would not want to let a rancher or farmer have any money through Government aid for a less per cent than he gets for his local money—the local banker would then have two rates, one, his own, at 10 per cent, the rate here, and the other, the Government at, say, 7 per cent—they would not mix very well. In fact I do not believe this would work to the advantage of the farmer, as the local banker would reluctantly put through a loan at 7 per cent for Government money when, especially, this applicant was gilt edged and by lending his own money he would be betting 10 per cent. I know how I would handle such a situation were I the banker; you know we are all human. What the farmer wants and must have is real help through some plan of an organization that he himself handles and controls.

What looks very feasible and practical to me is simply to extend the functions of the Federal land banks to include the short time credits the farmer so much needs and at a livable rate. The same local organization handling the farm loans can likewise handle the short-time loans. Make this organization cooperative, which I believe it is, and make this local organization obtaining loans guarantee all the loans they make. The same officers can act for both kinds of loans. The appraisal committee can size up the value of the security offered by a farmer within its district just as well as it can value his land. This committee knows each farmer in the district as to his financial and moral risk and the kind of a farmer he is and can pass upon the amount that man is entitled to on the security offered. To take care of any mistakes in the judgment of this appraisal committee let a sinking fund be set aside for such purpose, say one-half of 1 per cent, such amount to be added to the rate at which the loan can be made. In this way all delinquencies can be taken care of; and after a number of years of the operation under such a plan

and this fund has reached sufficient volume then this one-half of 1 per cent could be cut out.

I have dealt with farmers all my life and know that the loss by bad loans through the banks doing business in a farming community is negligible, probably less than the amount above suggested for a sinking fund. The only time the banks or the merchants lose on the farmers' business is during times of depression such as we are now having. All the country banks build up their large surplus on the credits extended to the farmers and by getting deposits from these same farmers. I will venture the assertion that the losses sustained by the average country bank comes from overloans to the business men of their own towns. The farmer always pays, except in crises like the one we are now experiencing. But for the farmer we would have no prosperous country towns and with no prosperous country towns we would have no prosperous cities. The farmer has been handicapped for all time past by insufficient credit and has had at all times to pay the very highest rate of any class of business. Until this disadvantage has been remedied you will not have a prosperous farming community.

The Federal land bank act was the greatest boon to the farmer ever enacted into law and now if Congress will just place with this act a sister act to help the farmer for his short-time paper the country will in a very few years find the farmer the most contented citizen in the whole length and breadth of the land. It is a small saving only in interest that he asks, just the same saving the manufacturer gets and has had all the time.

You will hear it objected that the average farm loan is a frozen loan, the bank can not realize on same instant as he can with the commercial loan. Let me say that there is not one merchant or manufacturer in a thousand who can pay up his loan on call from the bank. In fact the loan to the merchant and the manufacturer is just as much of a frozen loan as the one extended the farmer. There is this difference that the loan to the merchant and the manufacturer is renewed every 60 or 90 days and hence is called "liquid paper." This calling of loans excepting during times of stress is not practiced by the banks, they need the borrower just as much as the depositor and, when the loan has been properly placed, it is seldom the loan is called. The borrower is the one calling the loan usually.

I trust I have not bored you by the length of this letter and kindly take my suggestions in the spirit they are made. I am not setting myself up as one capable of drawing a bill to meet the conditions, but really feel that a bill including some of the above suggestions would be a very workable plan to help out the farmer in his present dilemma. With kindest personal regards and wishing you the compliments of the season, I remain,

Yours very truly,

W. J. PINNEY.

Mr. COOPER. Now, I want to state, Mr. Chairman, that to that letter addressed to the secretary-treasurers and which I have asked to be made a part of the record here I have received, up to yesterday, 1,017 replies. I have them listed here by States giving the opinion of the secretary-treasurer as to the merits of this bill. Of that number of replies 674 are unqualifiedly in favor of the bill as it is drawn; 44 are opposed to it.

Nine hundred and sixty-five of them are in favor of the provision with reference to the expense of the system; 52 are opposed.

Nine hundred and five of them, of the 1,017, favor the permanent organization plan suggested; 112 oppose it.

Nine hundred and nineteen favor the central bank idea; 98 oppose it.

Nine hundred and thirty-eight favor the provision for liquidation of associations; 79 oppose that.

Eight hundred and seventy-three favor the increase in the loan limit; 144 oppose it.

Eight hundred and sixty favor the provision for loans through agencies; 157 oppose it. I have them listed here by States, so that you may see how each State is voting on that.

Take Mr. Steagall's State; it is unanimously in favor of it. We have 26 replies, none opposed to the bill; and that is true of Tennessee and several other states.

Mr. MANSON. May I ask how many of those who have replied to that referendum are bankers who must be expecting to be appointed agents?

Mr. COOPER. I could not tell you that I would be glad to let you see every letter. I do not know how many of the secretary-treasurers are bankers,

but I want to say this, that in a great many cases when the local banker takes the work of secretary-treasurer is where we have our best associations. It is a mistake to assume that the country banker is not interested in the farmer, because he gets his business from him; he gets his deposits from him in some sections and he is glad to give them the privilege of this system.

Mr. STEAGALL. A whole lot of them are interested in the farm-loan bank and in the Federal land bank in the last two or three years who did not care much about them when organized, but who have recently found out their present help in time of trouble.

Mr. STEVENSON. I would like to ask you about subdivision (d) of Section 5, on page 15, whether that meets with the entire approval of the board: "To liquidate indebtedness of the owner of the land mortgaged." That is the latitudinarian proposition.

Mr. COOPER. I want to state that our view of that is this: You have got to take the practical view of it. If a farmer is in debt, it does not matter how that indebtedness was incurred, it is a burden on his farm and may result in the sale of his farm or a part of it. Now, why not—

Mr. FENN. Suppose he was in debt. He creates that debt for this purpose—goes out and buys an automobile, in the common phrase of the day, or indulges in anything that may be necessary extravagance in his opinion; buys oil stock, as suggested by one of the members of the committee. He creates that indebtedness and runs right up to get this money out of the association.

Mr. COOPER. All right. Let us take the case—

Mr. FENN. What is the need of the other three provisions, (a), (b), and (c), if we leave out (d)? That would apply to any person who is in debt. He could only borrow if he is in debt. In the section of the country I come from they loan money through the savings banks, and I do not think a savings bank would loan money on that kind of a proposition.

Mr. COOPER. To pay indebtedness?

Mr. FENN. To create indebtedness. It is a loan on the land and on the buildings, or on the reputation of the borrower in the case of savings banks.

Mr. COOPER. A good many of us who should not have done so have bought oil stocks.

Mr. FENN. But any "indebtedness" seems to me a very broad thing in the land proposition and in the long loan.

Mr. COOPER. I want to come to that. Suppose he has unwisely and foolishly incurred indebtedness and he is a farmer. He has to pay that indebtedness, or he is going to be sued and the sheriff will sell his property. You have taken his farm away from him, and someone else will buy it and step into the land bank and borrow the money to pay for it.

Mr. STEAGALL. Let me ask you this: Is it not, if not impossible, pretty difficult to frame this law so as to carry out the desire to limit the purposes for which loans may be made?

Mr. COOPER. We have found it so, very difficult.

Mr. STEAGALL. We can not very well follow up the money when a man gets it in his pocket and say where it will go, no matter how you write the law.

Mr. COOPER. That is our experience.

Mr. FENN. Why put it expressly in here?

Mr. STEAGALL. It declares the purpose and policy of the law and the spirit of the law, and it would, I should say, be helpful and would confer to some extent the intention and the desire of the Congress in the passage of the law. But that it is enforceable as to right, I never have thought it was.

Mr. STEVENSON. Have you concluded your regular statement?

Mr. COOPER. Yes.

Mr. STEVENSON. There is one question I wanted to ask you. You had passed that point when I came in. I do not hesitate to say that I regard the taking over of the absolute control of these institutions into the hands of the board as laid down by this as the most questionable feature of this whole proposition. I want to ask you about who are the directors. Take, for instance, the directors of the Columbia land bank. Who are the directors? You have nine of them, have you not?

Mr. COOPER. We have five. We are under temporary organization. The directors there, I can tell you, I think: Mr. Houston, who is the president of the bank; Mr. Arnold, who is secretary; and Mr. Root, treasurer; Mr. Glon, and a gentleman from Florida, whose name I do not now recall.

Mr. STEVENSON. Recently appointed?

Mr. COOPER. Oh, no; they have been appointed for some time.

Mr. STEVENSON. He has been appointed in the last year, has he not, the gentleman from Florida?

Mr. COOPER. No; he has been on the board for several years, before I came on the board.

Mr. STEVENSON. No; you are mistaken, Governor. He has been a recent appointment down there.

Mr. COOPER. On the board?

Mr. STEVENSON. Yes, sir.

Mr. COOPER. I am told he has been appointed in the last 18 months. I have been on the board eight months.

Mr. STEVENSON. He has been appointed in the last year and a half, for the reason that the very thing I am apprehensive about has occurred right there, according to the statements of Senator Fletcher, and he has not talked behind the barn either?

Mr. COOPER. I do not know anything about that. You might enlighten me on that. If there has been an improper appointment and it is called to the attention of the board, it will be corrected.

Mr. STEVENSON. It came about in an improper way since the appointment was made, and that is all I was going to remark about. There is more or less influence by politics and that can not be helped. It would be the majority one way or the other, in the appointment of directors in institutions like this.

Mr. STRONG. Do you think the political element will be gotten rid of if we turn over the election of the directors to the local farm loan association?

Mr. STEVENSON. The local farm loan associations, looking after their own financial interests?

Mr. STRONG. They are not looking after somebody else's political interests, are they? Already we have a national association represented here fighting this bill, who, if their plans mature will seek control in place of the Government board. Will not the same political element enter into the proposition?

Mr. STEVENSON. Do they belong to any political party?

Mr. STRONG. No; it belongs to its own block.

Mr. STEVENSON. It is an organization of people who have a particular interest who are combining for the purpose of protecting their supposed interest?

Mr. STRONG. Yes.

Mr. STEVENSON. I am just stating to you what has been stated to me about that.

Mr. STRONG. I would not have any objection if I thought they could conduct them in such a way as to maintain the confidence of the bond-buying public who furnish the funds. But in many local farm-loan associations they do not have a meeting except for the purpose of reelecting the secretary-treasurer.

In Washington County, Kans., the association to which I belong is very active and J. D. Hogan, our secretary-treasurer, has put through loans of about \$100,000 this year, but in my home county the association does not make many loans, and whether enough of those associations will take the proper interest in the management of the banks and whether or not if the borrowers manage the banks, they will be able to hold the confidence of the bond-buying public are matters to be very seriously considered; and it is because of the fear that they might lose the confidence of the bond-buying public that we have sought in the permanent organization to cooperate the Government and the stockholder-borrowers. The plan set up in this bill is to give three directors to the farm loan associations and three to the Government board; and in case of deadlock letting the commissioners of the board decide. This, it was thought, would give satisfactory representation to the borrowers with Government supervision. Now, if any other suggestion can be evolved that will protect in the minds of the bond-buying public who furnish the funds the system loans, satisfy the stockholder-borrowers and conserve the integrity of this institution and system, I will be very glad to have assistance to that end.

But the thought, I think, that is worrying everybody that is a true friend of the system, is, what the future will bring if the organization is completely turned over to the stockholder-borrowers, none of whom have a very large financial interest in the system. I have only a \$250 interest in my farm loan association. I went into the association to get the amortized loan on my farm. Having gotten my loan I have not much further interest except to have others so served.

Mr. STEVENSON. If the gentleman will yield, I would like to ask him this question: Do you know how much stock there is in the farm loan banks at the present time—about how much it amounts to?

Mr. STRONG. No; I do not. I know it is a large sum.

Mr. STEVENSON. Is it not up toward \$50,000,000 now?

Mr. COOPER. It is about \$35,000,000.

Mr. STEVENSON. That is all made up of these little investments of these associations, small fellows, like you, of \$250? And my point is, before we take away from those fellows the right to control these institutions, when they have mortgaged their land and borrowed money and taken the stock, at least we should give them the opportunity to see if they will control them. That has been my proposition. I was starting to make a statement awhile ago which I will not now put in the record.

But here is the statement that is made to me about it: That the appointments of the directors of the farm loan banks are being made on the recommendation of the political referees in different States, and there is considerable objection to it. Take, for instance, the very man I referred to from Florida. The political referee of the State of Florida of the party now in power—and if it had been the other party it would have been the same thing—comes up here and says, "I want this man to have a job; I want him to be an appraiser." "Well, we have not any appraisers. We have always written Senator Fletcher there is none needed in Florida." "Well, for God's sake give him something." And they make him a director of that farm loan bank down there. That is the thing I am afraid of, Brother Strong. That is exactly where it will lead to.

Mr. STRONG. I am willing to agree with you that politics sometimes brings about conditions that are to be deplored.

Mr. STEVENSON. I will say that you will never get a less political board than we have had—never. They are as free from it as any board we have ever had. And whenever you give all the control of this big money institution to a political board you are going to have a political machine to deal with.

Mr. STRONG. Do we know that the farm loan association will be free from politics?

Mr. STEVENSON. There are so many kinds of politics.

Mr. STRONG. Suppose a man started out in some district that had been unusually afflicted with short crops in a campaign to be elected as president of one of these banks upon the platform that he would never foreclose a mortgage. He might build up a sentiment that would place him at the head of one of those banks. That announced throughout the country would tend to dampen the ardor of the purchaser of the farm loan bonds and hurt the system. In other words, will we secure a good business management free from any politics through the farm loan associations under the election by stockholder-borrowers with a small interest like my own, \$250?

Mr. STEAGALL. The farmer was fortunate in being permitted to come into this system which the Government had undertaken to supervise and look after. That carries certain advantages to the farmer. So far as his rights in the matter are concerned, he has got his rights to start with; he has given his land as security, and he can do as he pleases; and he does not have to go into the associations if he does not want to. He has had those things, all of them, but he did not have the system by which he could borrow money on an amortized basis and live; and I am slow to take up with the argument that these associations necessarily, because of their investments should be allowed to control. I think I said the other day—if I did not I will now—that when a farmer has a chance to get into partnership with the Government I think he ought to take it.

Mr. STRONG. Another thing we have got to decide, is whether or not we will keep the Government's supervision on this system, or whether it is best to release that control.

Mr. COOPER. Mr. Chairman, I would like to introduce this statement. I thought the committee would be interested in that, and I want to say that in writing the letter I stated to the secretary-treasurers that the board was disposed to approve the bill, although we did not indorse all of its provisions, and I think that is true. The members of the board do not agree on everything about the bill.

Mr. APPEBY. This is the reply from the various States?

Mr. COOPER. From the various secretary-treasurers.

(The statement referred to follows:)

House bill No. 13125.

	Entire bill.		Sec. 1, ex-penses.		Sec. 2, election officers, directors, Federal land banks.		Sec. 3, central bank.		Sec. 4, liquidation of associations.		Sec. 5, increase of loan limit.		Sec. 6, loans through agents.		Total replies.
	For.	Against.	For.	Against.	For.	Against.	For.	Against.	For.	Against.	For.	Against.	For.	Against.	
DISTRICT NO. 1.															
Maine.....	4	0	4	0	4	0	4	0	4	0	4	0	4	0	4
Massachusetts.....	1	0	2	0	2	0	2	0	2	0	2	0	2	0	2
Vermont.....	1	0	2	0	2	0	2	0	2	0	2	0	2	0	2
New Hampshire.....	2	0	2	0	2	0	2	0	2	0	2	0	2	0	2
Connecticut.....	1	0	2	0	2	0	2	0	2	0	2	0	2	0	2
Rhode Island ¹	1	0	2	0	2	0	2	0	2	0	2	0	2	0	2
New Jersey.....	12	1	14	1	14	1	14	1	14	1	14	1	14	1	15
New York.....	12	1	14	1	14	1	14	1	14	1	14	1	14	1	15
DISTRICT NO. 2.															
Pennsylvania.....	12	2	12	2	11	3	12	2	12	2	12	2	12	2	14
Maryland.....	5	5	1	5	1	5	1	5	1	5	1	5	1	5	6
Delaware.....	12	1	13	1	13	1	13	1	13	1	13	1	13	1	19
Virginia.....	3	0	3	0	3	0	3	0	3	0	3	0	3	0	3
West Virginia.....	3	0	3	0	3	0	3	0	3	0	3	0	3	0	3
DISTRICT NO. 3.															
North Carolina.....	14	2	19	2	16	5	17	4	15	6	18	3	17	4	21
South Carolina.....	14	2	20	2	19	3	20	2	20	2	18	4	19	3	22
Georgia.....	21	6	26	7	23	10	26	7	26	7	24	9	25	8	33
Florida.....	4	1	8	1	7	2	8	1	7	2	7	2	7	2	9
DISTRICT NO. 4.															
Indiana.....	21	3	26	3	24	5	26	3	25	4	24	5	24	5	29
Kentucky.....	21	0	24	0	21	3	24	0	24	0	24	0	24	0	24
Ohio.....	27	1	28	3	26	2	28	3	26	2	28	2	28	0	28
Tennessee.....	26	0	34	0	31	3	32	2	34	0	31	3	32	2	34
DISTRICT NO. 5.															
Alabama.....	19	0	26	0	26	0	24	2	26	0	23	3	23	3	26
Louisiana.....	11	1	14	1	14	1	14	1	14	1	14	1	14	1	15
Mississippi.....	24	1	33	2	34	1	32	3	33	2	31	4	32	3	35
DISTRICT NO. 6.															
Illinois.....	25	1	32	2	28	6	32	2	32	2	31	3	32	2	34
Arkansas.....	28	1	35	1	33	3	34	2	34	2	33	3	33	3	36
Missouri.....	23	1	33	1	32	2	33	1	29	5	33	1	28	6	34
DISTRICT NO. 7.															
North Dakota.....	21	1	44	1	41	4	41	4	42	3	34	11	33	12	45
Michigan.....	8	1	21	1	19	3	20	2	21	1	14	8	13	9	22
Minnesota.....	27	3	30	3	28	5	29	4	28	5	26	7	34	19	33
Wisconsin.....	13	0	26	0	25	1	24	2	26	0	20	6	21	5	26
DISTRICT NO. 8.															
Iowa.....	37	0	42	0	42	0	42	0	42	0	41	1	40	2	42
Nebraska.....	34	1	47	1	47	1	39	9	46	2	46	2	41	7	48
South Dakota.....	12	2	20	2	17	5	17	5	19	3	19	3	18	4	22
Wyoming.....	5	0	8	0	8	0	7	1	8	0	8	0	7	1	8
DISTRICT NO. 9.															
Colorado.....	23	1	36	1	33	4	31	6	35	2	31	6	34	3	37
Kansas.....	18	0	20	0	17	3	19	1	20	0	13	2	16	4	20
Oklahoma.....	20	2	32	2	32	2	29	5	32	2	23	11	27	7	34
New Mexico.....	8	1	11	1	10	2	11	1	11	1	9	3	10	2	12
DISTRICT NO. 10.															
Texas.....	51	1	79	2	67	14	77	4	76	5	75	6	67	14	81
¹ No replies.															

1 No replies.

House bill No. 13125—Continued.

	Entire bill.		Sec. 1, ex-penses.		Sec. 2, election officers, directors, Federal land banks.		Sec. 3, central bank.		Sec. 4, liquidation of associations.		Sec. 5, increase of loan limit.		Sec. 6, loans through agents.		Total replies.
	For.	Against.	For.	Against.	For.	Against.	For.	Against.	For.	Against.	For.	Against.	For.	Against.	
DISTRICT NO. 11.															
California.....	9	0	15	0	15	0	15	0	15	0	12	3	10	5	15
Utah.....	3	0	11	0	10	1	10	1	10	1	10	1	8	3	11
Nevada.....	3	0	4	1	4	1	4	1	4	1	3	0	2	0	5
Arizona.....	3	0	4	1	4	1	4	1	4	1	4	1	4	1	5
DISTRICT NO. 12.															
Washington.....	17	4	32	4	29	7	30	6	32	4	25	11	35	1	36
Oregon.....	7	1	13	1	14	0	11	3	11	3	10	4	11	3	14
Idaho.....	12	2	18	2	17	3	17	3	18	2	17	3	16	4	20
Montana.....	11	0	14	0	14	0	13	1	12	2	13	1	12	2	14
Total.....	674	44	965	52	905	112	919	98	938	79	873	144	860	157	1,017

Mr. COOPER. I have another statement that I thought the committee would be interested in, and it, to my mind, furnishes possibly one reason for dissatisfaction with the National Farm Loan Association. Some time ago I got this up for my own use. I have studied here each district. In the first I had 130 reports. That means 130 associations. In the second district I had 160 reports, in the third district 400, in the fifth district 292, and so on. It will all appear.

The secretary-treasurers of those associations have received—I am giving you the total figures—in dividends in the Federal land bank of \$1-\$27,000 in round numbers, and have paid to the borrowing stockholders \$936,000, about 50 per cent. Those associations have collected from borrowers in addition to that the sum of \$2,742,000 in round numbers.

That gives you an idea of the cost of operation of the local farm loan association.

I want to say that many associations pay their borrowers all the dividends; other associations do not charge the full 1 per cent, which the law allows. There is a secretary-treasurer here today who receives, I believe, one-half of 1 per cent. That is all he gets. We have considerable trouble with secretary-treasurers because they want more salaries. The Farm Loan Board has, before I became a member, announced that it thought that \$300 as a continuing compensation, plus the commission that they get on each loan, ought to be a sufficient compensation for the secretary-treasurer. They all have not approved that, and we have had considerable difficulty.

Mr. APPLEBY. How much would that give the average secretary-treasurer? Mr. COOPER. If his loans for the year would amount to \$100,000, he would get three-fourths of 1 per cent, and that plus \$300.

Mr. APPLEBY. Amounting to about \$1,000 a year?

Mr. COOPER. About \$1,000 a year, and would take possibly one-fourth of his time.

Mr. MANSON. Have you any figures showing the amount of reserve and surplus?

Mr. COOPER. Oh, yes; that is all in here.

Mr. MANSON. Then why would this money if turned over still hold as a reserve and surplus?

Mr. COOPER. I think so; that is given in here.

Mr. MANSON. I understood in your testimony there was a difference in cost of running the association.

Mr. COOPER. No. I said you would see how much the borrower does not get.

Mr. APPLEBY. Then, you want to insert that in the record?

Mr. COOPER. Yes, sir.

Cost of operation of national farm loan associations.

(The table referred to follows.)

District.	Reports.	Loans.	Borrow- ers.	Average loan.	Dividends.		Association funds.		Collected from applicants.	
					Bank.	Association.	Reserve.	Surplus.	Amount.	Per cent on loans.
First.	130	\$15,577,750.00	5,501	\$2,694.00	\$58,970.07	\$28,290.27	\$7,301.27	\$29,585.15	\$131,418.32	0.78
Second.	400	22,215,366.00	9,582	2,364.00	34,469.08	4,191.35	32,038.46	8,588.44	156,798.84	.66
Third.	262	30,548,900.00	9,215	3,415.00	152,695.70	113,877.73	35,698.91	15,733.43	234,890.31	.63
Fourth.	350	31,451,038.00	11,991	2,623.00	168,468.15	79,577.53	19,428.10	68,776.79	267,497.65	.54
Fifth.	334	34,275,600.00	16,492	3,092.00	277,301.75	57,088.39	13,231.44	24,346.26	276,592.64	.83
Sixth.	370	31,451,038.00	16,492	3,092.00	277,301.75	57,088.39	13,231.44	24,346.26	276,592.64	.83
Seventh.	370	31,451,038.00	16,492	3,092.00	277,301.75	57,088.39	13,231.44	24,346.26	276,592.64	.83
Eighth.	370	31,451,038.00	16,492	3,092.00	277,301.75	57,088.39	13,231.44	24,346.26	276,592.64	.83
Ninth.	370	31,451,038.00	16,492	3,092.00	277,301.75	57,088.39	13,231.44	24,346.26	276,592.64	.83
Tenth.	370	31,451,038.00	16,492	3,092.00	277,301.75	57,088.39	13,231.44	24,346.26	276,592.64	.83
Eleventh.	370	31,451,038.00	16,492	3,092.00	277,301.75	57,088.39	13,231.44	24,346.26	276,592.64	.83
Twelfth.	400	41,837,835.00	13,761	2,623.00	137,970.64	17,294.94	120,675.70	338,164.32	517,740.79	.99
Total.	3,645	381,167,598.00	127,734	2,623.00	1,827,271.53	808,791.22	230,045.33	592,177.24	2,743,303.99	.71

Mr. MANSON. How much is the surplus?

Mr. COOPER. \$592,000; and the reserve \$230,000.

Mr. MANSON. A total in the neighborhood of \$800,000?

Mr. COOPER. Yes.

Mr. MANSON. I understood you to testify a few minutes ago that the only assets of the association was the double liability?

Mr. COOPER. Outside, of course, of what the borrowers have paid in. This is the borrowers' money that has gone in there.

Mr. GOLDSBOROUGH. Do you not believe if these local associations were encouraged by the Farm Loan Board to become the nucleus of local interests that they could be kept alive and could render great local public service, and don't you believe also that this bill in its present form is simply another evidence of the tendency to disintegrate a system on the theory that so long as in competent hands a business proposition can be handled better by a few than by many; is not that all there is to it?

Mr. COOPER. I am glad you mentioned that, because I had overlooked an observation I wanted to make of that kind.

Your question implied that the Farm Loan Board does not encourage that? Mr. GOLDSBOROUGH. Oh, no; I want you to explain that. But the Farm Loan Board is not immortal?

Mr. COOPER. Not by any means. We make a number of mistakes.

Mr. GOLDSBOROUGH. And, however competent, this board will change, and what this committee wants to do is to preserve the system so that it will be subject to the minimum of attack by politics or any other sinister force. That is all the interest we have in it, so far as I can see.

Mr. COOPER. That is the interest we all should have. I want to say, however, that in that connection that members of the Farm Loan Board go wherever there can be a congregation of secretary-treasurers, and have done so since the system was incorporated, and tried to explain to them the board's viewpoint and the board's purpose, and to encourage them in every way; and that is done by the officers of the banks. The bank officers go out and talk to these men and urge them and many of them, I want to say, respond. I do not want you to get the idea that every association has fallen down; that is not true. We have a great many splendid associations, but we have so many that are not, and I could show you complaints that come to my desk almost daily and it has caused me to change my view as to the organization. The people have told me "I have had my application in this association for months without results."

Mr. GOLDSBOROUGH. Could you not amend the law to cover a case of that kind?

Mr. COOPER. The suggestion was made to give the board power to remove the secretary-treasurer who would not function, and there was a considerable howl made about that. The board wanted to run everything, it was said. I want to say that the Federal Farm Loan Board does not want to run anything, but they are charged with the duty of administering this law and we want to loan this money to the eligible farmer as conveniently and speedily as possible.

Mr. MANSON. Do you not believe that a large part of their complaints come from the period when the banks were denying to the secretary-treasurer the right to make application and denying to the farm loan associations the right to make applications for loans?

Mr. COOPER. That has not been the case since I have been on the board. We have not denied them and we do not limit them.

Mr. MANSON. You know it to be a fact, however, that for a considerable period in several land bank issues—the Houston district, the Wichita district, the Omaha district and the St. Louis district—that in those districts there was a period of several months last year when the right to make application was denied to the association?

Mr. COOPER. Last year?

Mr. MANSON. Yes.

Mr. COOPER. Not since May of last year.

Mr. MANSON. I think May was about the termination of the period.

Mr. COOPER. Well, I could tell you why it was.

Mr. MANSON. I know why it was. The banks did not have the money. And do you not believe that a lot of these complaints that have come to you from farmers that they cannot get the association to act on their application really go back to that period when the associations themselves could not get the

banks to act and, in fact, could not get the blank applications upon which to make applications for loans?

Mr. COOPER. No sir; I am not talking about those cases. We had that litigation period when some of the banks continued to get applications.

Mr. MANSON. The litigation was over two years ago this month.

Mr. COOPER. Yes.

Mr. MANSON. Beginning along in October or November of last year, and running down—in fact, on the 15th of April, to make a specific date, the bank in your district had not received an application for a loan from November until the 15th of April?

Mr. COOPER. Yes, and I would like to tell you why that was, too. During that litigation the Federal Land Bank of Columbia, whatever may be the reason, continued to receive applications, with the result that when the litigation was over and during that period no loan could be made and bonds not be sold, they had \$40,000,000 of applications waiting. They could not receive any more until they worked some of those off.

Mr. MANSON. There is always a tendency to blame the system. Do you not think that a lot of this dissatisfaction with the associations is due to the fact that for a long period of time, because of conditions over which they had no control, they were not able to get applications into the bank, to say nothing of getting action on them when they got into the bank?

Mr. COOPER. Mr. Manson? I look at that this way: When I find that our local association delays forwarding the applications, then in others applications go in promptly and are acted on promptly by the bank, I must conclude that the fault is with the association and not the bank.

Mr. MANSON. Do you not think that this situation may be due to another thing? These associations under the existing law must indorse the loans?

Mr. COOPER. Yes.

Mr. MANSON. They, therefore, must take, and the law contemplated they should take, into consideration the moral risk involved, the character of this man, whether he is industrious or whether he was lazy, whether he spent his time working his farm or selling booze. Do you not think that some of these complaints come from people whom the directors of the association have not considered good moral risks?

Mr. COOPER. I could not say as to all of them. Some of them must be of good character. But the association should at least act on them.

Mr. MANSON. Do you not think it would be the natural tendency of a farmer who has been turned down as a poor moral risk to carry it to the Farm Loan Board and say: "This association is not functioning, and I am getting no service?"

Mr. COOPER. I judge it is not functioning, when I look at the record which says they are not turning in applications.

Mr. STRONG. Let me suggest that Governor Cooper be given a chance by the attorney for the National Farm Loan Association to answer his questions fully.

Mr. COOPER. I am glad Mr. Manson is asking questions. I am not interested in anything but bringing out the real situation here.

Here is the situation we find, Mr. Manson: This is not an isolated case at all; it is illustrative. Down in South Carolina some time ago a man whom I know personally and know him to be one of the best citizens in the United States—he had not made an application, but he represented an estate that had a mortgage on a farmer's land. This farmer put in an application in April of last year. He has not been able to get the secretary-treasurer yet, up to a month ago, to call in his committee and pass upon that application. We have a good many cases like that.

We made a study of one district and we found that the average delay in the association was 37 days. That seemed a little long. But when you take that as an average it is inexcusable.

In the case of many other associations I want to say that there is a different situation. The secretary-treasurer has sent in the application. When the application comes in he has the property appraised and he sends it into the bank, and the bank turns it over to an appraiser, and the loan is closed.

Mr. MANSON. Is it not a fact that the secretary-treasurer can not send in an application to the bank until that application has been acted upon by the board of directors of the association?

Mr. COOPER. Yes, that is true; and in that connection I get letters from secretary-treasurers saying, "I have sent out notices; I have written personal

letters, and I can not get my board of directors to meet and pass on this application." It makes no difference what the cause is, the ultimate borrower is being denied the service.

Mr. MANSON. Do you think perhaps that is due to a cause which will be overcome; for instance, I have cited the situation that existed here in the first place by which the system was tied up for 18 months; and then when it started to function the association got in applications for nearly \$300,000,000, and out of those applications the bank turned down about \$73,000,000 of loans. Then the system became so swamped for another period of several months that the associations were not permitted to send in applications, and on the application that they did send in they were compelled to wait anywhere from 3 to 6 months to get action. Do you not think that series of events resulted in discouraging these directors, who get no compensation, and caused them to lose interest; and that when it is again known that the system is going to function and that they can accomplish something as a result of their efforts, they would show more interest?

Mr. STRONG. Has not that been known for the last year?

Mr. MANSON. No, no.

Mr. STRONG. You say it has been known since the 15th of April last?

Mr. MANSON. No, I say on the 15th of April last a man testified before the Banking and Currency Committee of the Senate that "We are so swamped that we do not want any more business."

Mr. COOPER. As I say, I cannot go back of the 22nd of May.

Mr. STRONG. You think that at least since June there has been money to meet all applications for loans?

Mr. MANSON (interposing). There is nothing that discourages a man so much, particularly in working without compensation, as to find out that his efforts do not do any good for anybody; and I say that during this long period of time when their efforts did not do any good, then they could meet and pass on the applications and send them into the bank and get no results, that it had a tendency to discourage them and it will probably take some little time, with the bank functioning adequately, to get their interest revived.

Mr. STRONG. You do not think the six months that has passed since the banks have been functioning is sufficient time?

Mr. MANSON. I do not think, for instance, you have covered the loaning season yet. Your loaning season occurs during a certain part of the year. In the Central West it is well known that practically all the loaning is done along about the 1st of March. It is not done during the months of May, June, July and August.

Mr. STRONG. It is true that the large amount of loans are closed in March. But I want to say to you that in my home county we are making very few loans, and there are a lot of complaints of farmers coming to me that they cannot get loans, while in the county west of me, which is supposed to be not quite as good a county agriculturally, the secretary-treasurer of the association of which I am a member, has taken over \$200,000 worth of business out of that county in the last year; and it seems to me that the farmers of my home county should have an opportunity to get into this system and get their money just as easily as the farmers in Washington County. But they are not getting the loans.

I would like to say further that the secretary-treasurer in my home county is the president of the biggest bank in the county, and that while he is a fine, delightful man, and a very close, political and personal friend of mine, that he has other ways of loaning money and I do not think his interests are confined to the interests of the Federal farm loan system, and that the situation would be different if we had an agent of the land bank there.

Mr. MANSON. Do you not think that situation could be prevented by providing that no man engaged in the operation of a bank should be secretary-treasurer?

Mr. STRONG. That would be all right if it were not for the fact that all over my district there are many little banks at little cross-road towns that are farmer banks, that are operated by men who are interested in agriculture and who is perhaps the one proper man there that is in a position to make and close these loans. I would be very glad to adopt that suggestion if it was not for the fact that I know there are a lot of farmers' banks throughout my district that would be the proper place for the secretary-treasurer, although in other towns if I had an opportunity I would appoint a man who was not connected with any bank.

Mr. COOPER. Mr. Chairman, I want to state in reply to Mr. Manson's question, that since the 22d of May I have been a member of the board, and I have been trying to learn, studying the system, and I have learned some things.

At that time and shortly after I came on the board, we sent out a notice to every bank and every association that we had plenty of funds, and that no loan must be rejected on that ground and could not be, because the supply of funds was adequate. We have urged many associations to action, and they have failed to do anything.

If some have been very active, I find that certain others have not been. It seems to me difficult to fix the fault and know where the trouble is. So far as the loaning period is concerned, we must have been loaning a million dollars a day all during last summer and fall. There is no particular loaning period in this country; and that applies to all the banks.

It is true that the bank of Omaha does have a March period of business. But the Federal land bank of Omaha is making loans all the time, as are all the others.

Mr. MANSON. Governor Cooper, you do not regard this indorsement as of much consequence, do you?

Mr. COOPER. I would not say that—

Mr. MANSON (interposing). I mean the indorsement of the Farm Loan Association on the mortgage; you do not believe that that is an important element in the security?

Mr. COOPER. I do not think it is a controlling element by any means, because I think that the bonds will be absolutely good and salable without it.

Mr. STRONG. You do not think there is very little opportunity or chance of their ever being called upon to make such liability good?

Mr. COOPER. They have not been in five years.

Mr. STRONG. You do not think the bondholders will be—

Mr. STEVENSON (interposing). Let us see about that. Just one question. As I understand it, there has been considerable dividends paid to these farm loan associations and that in instances where the farm loan associations' stockholders were in default on their mortgages, that the dividends were held up to be applied on that; is not that so?

Mr. COOPER. Yes, that is true in some cases, and in other cases the dividend has been paid to the association and the association in turn has loaned that to the defaulting member.

Mr. STEVENSON. Is not that a very important element in this transaction, where the bank has a bond right in its hands going to the association to back up the association's guarantee, which it can take and apply to that guarantee, and, therefore, prevent an accumulation of insolvencies?

Mr. STRONG. And, on the other hand, does it not often happen that the local association uses up the dividend and does not give it to the individual stockholder-borrower?

Mr. COOPER. In many cases the dividend goes to the association and the borrower gets not a cent.

Mr. MANSON. What I was driving at was this: If this indorsement does not amount to much, I should not think there would be any difficulty in getting an agent to indorse.

Mr. COOPER. I did not say there would be any difficulty in getting an agent to indorse anything, Mr. Manson.

Mr. STRONG. I think the attorney for the association ought to be fair.

Mr. APPLEBY. Are there any other questions you want to discuss?

Mr. COOPER. I do not think there are, unless somebody desires to ask questions.

Mr. APPLEBY. Are there any questions? If not, we will proceed to the next witness.

Mr. STRONG. I would like to ask you, along the line you were testifying a moment ago, where you said it was hard to get the associations to respond and to function. You have introduced in evidence here a synopsis of the replies of the different associations on this bill?

Mr. COOPER. Yes, sir.

Mr. STRONG. Did you send a copy of this bill with a statement to all the associations?

Mr. COOPER. Yes, sir.

Mr. STRONG. And how many are there?

Mr. COOPER. About 4,600.

Mr. STRONG. And you had replies, I see, from 1,017?

Mr. COOPER. Yes, sir; up to date—there were some more this morning that I had not time to tabulate.

Mr. STRONG. Less than 25 per cent have responded?

Mr. COOPER. Yes; a little less than 25 per cent.

Mr. STRONG. Is that about the response you get on other matters?

Mr. COOPER. I think that is the best response we have ever gotten. Evidently there is a little more interest in this matter than in any other matter we have sent out. That is my recollection. This was sent out, as I recall, in December—dated December 9th and it was about the 15th when it went out.

Mr. MANSON. Mr. Cooper, do you not believe that the ordinary secretary-treasurer would hate to tell the board that he did not believe in a bill that had their indorsement?

Mr. COOPER. Of course, that question suggests that a secretary-treasurer who does not differ with the board is a man without courage. I do not think that. We have some who disagree frankly, and two or three of those I can recall right now are among the best secretary-treasurers we have, and they have the absolute support of the Farm Loan Board in their work. They have disagreed with us, and I do not think that is a correct assumption. That letter did not tell them what we wished them to say, and I think that the man of average intelligence and courage—

Mr. MANSON (interposing). Did not your letter tell them that it would be necessary for this plan of organization to go through in order to get the increase in the limit?

Mr. COOPER. It appeared that way to me from the information I had.

Mr. STRONG. These associations have also been propagated by the national organization, and an opinion sent them prepared by Mr. Manson, the attorney who is cross-examining you, have they not?

Mr. COOPER. I could not say.

Mr. STRONG. You know that is a fact, do you not?

Mr. COOPER. No.

Mr. STRONG. Well, it is the fact.

Mr. COOPER. I know that one secretary-treasurer in Texas did circularize all the associations.

Mr. APPLEBY. For the purpose of the record, please state your full name, address, and whom you represent.

STATEMENT OF MR. LESTER C. MANSON, COUNSEL FOR THE FEDERATION OF NATIONAL FARM LOAN ASSOCIATIONS, 402 EDMONDS BUILDING, WASHINGTON, D. C.

Mr. MANSON. My name is Lester C. Manson; I am a resident of Washington; address, 402 Edmonds Building. I am counsel for the Federation of National Farm Loan Associations. I receive no compensation and do not expect any.

Mr. STRONG. Mr. Manson, would you object to being questioned at this time?

Mr. MANSON. Not a bit.

Mr. STRONG. Have you never presented a bill to the association for your fees?

Mr. MANSON. No, sir.

Mr. STRONG. And never expected any?

Mr. MANSON. Never expected any.

Mr. STRONG. Is it not true that you have presented a bill to this association?

Mr. MANSON. For fees?

Mr. STRONG. For services.

Mr. MANSON. No; I never presented a bill for services. I have presented bills for disbursements, but I have never presented any bills for services.

Mr. STRONG. Disbursements for what?

Mr. MANSON. I have sent out considerable literature, and in connection with that I have incurred some expense.

Mr. STRONG. To the farm loan associations?

Mr. MANSON. Yes, sir.

Mr. STRONG. The literature which you have sent out comprises your opinion upon this bill?

Mr. MANSON. Oh, yes. And back further than that, I have been active in connection with this matter since a year ago last October.

Mr. STRONG. Well, what is your interest in the association, then?

Mr. MANSON. I came from a farming community, and when I first—

Mr. STRONG (interposing). Where?

Mr. MANSON. Since I was counsel. When I first became interested in the farm loan system as an academic subject, just as a matter of general interest, I came to the conclusion that it was the finest thing and the best thing that had ever been established.

Mr. STRONG. I agree with you.

Mr. MANSON. My father had to leave his farm when I was a youngster because of the fact that we had at that time no such thing as the Federal farm loan system.

Many men have hobbies. This is my hobby. And for the last year—or since a year ago last October—I have devoted a great deal of time to the study of the farm loan system and farm loan act and the operation of the system.

Mr. STRONG. You are a lawyer in Washington?

Mr. MANSON. Yes, sir.

Mr. STRONG. Engaged in active practice?

Mr. MANSON. I am.

Mr. STRONG. And you say to us that you have no intention of getting any personal reward—

Mr. MANSON. (interposing). Not the slightest.

Mr. STRONG. (continuing). By way of compensation for your services to this association in any way?

Mr. MANSON. Not the slightest.

Mr. STRONG. You are doing this just as a work of love?

Mr. MANSON. That is it exactly.

Mr. STRONG. You are the counsel of this association and your remuneration is purely your affection for the system?

Mr. MANSON. Such satisfaction as I can get out what I consider to be a public service.

Mr. STRONG. Fine. All right; go right ahead.

Mr. MANSON. Before going into a detailed discussion of the provisions of this bill, I want to call your attention to the general situation with respect to the interest of the association, as I see it. The principal evidence that has been offered to show that the association is not functioning as it should has been the fact that they do not get legal attendance on their meetings; that the association members, when they get their loans, do not turn out to attend the meetings.

As I read Judge Landell's testimony, he stated that the secretary-treasurers would cast the ballot for directors of the Federal land bank in case the associations should elect them. The general gist of Mr. Quick's testimony here was to the effect that that authority could not be exercised efficiently by the association, because the members did not turn out, leaving the inference to my mind that the bank directors were to be elected by the body, that the ballots would be cast by the body of the association members.

Now, the fact of the matter is that the association as a body—the individual stockholders of the association in a meeting—have no function whatever except to elect directors in their own association. This association, like all other corporations that do business in this country, is governed by its board of directors. The board of directors pass on the loan; and the board of directors are the ones who would vote the stock of the association, were the association permitted to vote its stock for directors in the Federal land bank. The board of directors elect the secretary-treasurer; in fact, the stockholders, as such—the individual stockholders—have no function under the law except to elect their board of directors.

This corporation in this respect corresponds to the practice of every other business corporation. It was never contemplated by the law nor by the framers of this law that when this association transacts business it was going to be necessary to call a town meeting.

These directors serve without compensation. They are men who have shown enough interest to accept the office of director, and they are a selected group of men who are especially interested in the association and in the system.

I think it is a recognized fact, which does not need demonstration, that anything that is going to bring money into an agricultural community is going to help everybody in that community. Not only the particular borrower, but everybody in that community has an interest in the proper financing of the principal industry of the community. So, gentlemen, if the board of directors of an association function, that association is functioning.

This bill contains provisions which are not of recent origin. I am not going to take issue with anybody as to how this bill was prepared; I do not know

anything about it, and I am willing to accept the word of the man who introduced it; I have no reason to doubt it. But the ideas that are embodied in it, the principles upon which it is based, date back over a year ago. The provision for the permanent organization is substantially and in effect the same as that recommended by the Federal land board in its fifth annual report, dated December 15, 1921. The provision authorizing the making of direct unendorsed loans through agents is also contained in the recommendation of the Federal Farm Loan Board in that same report. The provision for the voluntary liquidation of associations is also contained in the recommendations of the Federal Farm Loan Board as of that date, as is the provision for the organization of a corporation to handle the bonds.

I think that under those circumstances, if we are to get at the real purpose of this bill—and in saying this I do not question the purposes which the author of the bill has in mind—it is fair for us to consider the conditions that existed at the time these ideas were promulgated by the Farm Loan Board.

Mr. STRONG. Might I ask this question? For the sake of argument, granted that all of the provisions of the bill are the result of the recommendation of the Federal Farm Loan Board—a Government board appointed by the President and confirmed by the Senate—is it your idea that that should necessarily condemn the bill?

Mr. MANSON. Oh, no; indeed. I want to say right now that I have no animus toward the board. I do not believe that a better board could have been selected. I think they are high-class and always have been high-class, conscientious men. So far as I have known them they have been men of marked ability.

As to their views on this proposed legislation, I disagree with them—that is, as to some of their views, particularly as to those views embodied in the recommendations contained in their fifth annual report. But I accord to them that same degree of respect, notwithstanding the fact that I disagree with them, that I expect from men who disagree with me. Because I disagree with them is no reason why I do not think they are high-class and able men.

They have a different viewpoint, see this thing from a different angle—

Mr. STRONG (interposing). All of which clears the atmosphere.

Mr. MANSON. Yes, sir; and I entertain the same idea toward the author of this bill, who introduced it, exactly.

Mr. STRONG (interposing). And the sky is now thoroughly clear.

Mr. MANSON. The point I wish to make, however, is that in arriving at the purposes of the bill, we have a right to consider the conditions which existed at the time the recommendations were made by the Farm Loan Board, and we have a right to consider the genesis of the ideas which are incorporated into the bill.

Prior to the 28th of February, 1921, the system had been tied up by a lawsuit which questioned the constitutionality of the act, for about 18 months. That case was decided, I think, on the 28th of February, 1921. From the 28th of February, 1921, until the 30th of November, 1921, the farm loan associations through their directors, acted upon and sent to the Federal land banks applications for loans amounting to \$296,859,381, of which amount loans aggregating \$73,238,626, or 25 per cent of the amount applied for, were made.

Mr. APPLEBY. It is now 1 o'clock, and if there is no objection, we will take a recess until 2 o'clock this afternoon.

(Thereupon, at 1 o'clock p. m. the committee took a recess until 2 o'clock this afternoon.)

AFTER RECESS.

The committee met, pursuant to recess, at 2 o'clock p. m.

Mr. APPLEBY. Now, Mr. Manson, will you please continue?

STATEMENT OF LESTER C. MANSON—Continued.

Mr. MANSON. At the time we adjourned I was discussing the conditions which existed at the time the fifth annual report of the board was promulgated and sent to Congress.

Mr. STRONG. Please put the date in.

Mr. MANSON. That is the 15th of December, 1921. I have the data before me which shows that from some time in early fall, in November—

Mr. APPLEBY. In November, 1921?

Mr. MANSON. November, 1921, down to the 15th day of April, 1922, the banks were so swamped with business that the right to make application for further loans was denied to farm-loan associations by most of the banks. That is not true of the first district.

Mr. STRONG. Principally caused by the accumulation of applications that had existed during the time it was in litigation.

Mr. MANSON. The demand arose during that time, but all of the business that was written after the system had started to function again was written on new applications. I believe I am right on that, am I not, Mr. Corey?

Mr. COREY. I think so.

Mr. MANSON. In other words, after the case was decided the associations were required to take new applications.

Mr. STRONG. But it was old wine in new bottles.

Mr. MANSON. Yes; it was old wine in new bottles.

Mr. STRONG. It was an accumulation of old business?

Mr. MANSON. Yes.

Mr. STRONG. Of the men who wanted loans?

Mr. MANSON. Yes.

Mr. COREY. In the main, that was true, and was necessary because some of the applications were very old; there had been a change in values and to be safe they had to make new applications.

Mr. MANSON. I do not want to encumber the record—

Mr. APPLEBY. Be as brief as possible.

Mr. MANSON (continuing). With the proof of that statement. If there is any question about it, all of the information on the subject can be found in the report of the hearings before the subcommittee of the Senate on Banking and Currency in the Senate bills S. 620 and S. 2183, on April 8 and 15.

During that period of time I made a compilation of complaints that came in from farm loan associations with reference to the fact that they could not secure blank forms of application; that the applications they had in the banks had been pending from three months to six months without action, and they could not inform the farmers or give them any definite information as to whether or not their loans would be put through. I do not care to encumber the record with that compilation, but I mention all of this for the purpose of calling the attention of the committee to the fact that such evidence of dissatisfaction as may exist at the present time with the functioning of the associations is very largely due to the fact that for a long period of time the association could not function because it had nothing to function with.

Mr. STRONG. You think they got a bad start?

Mr. MANSON. They got a bad start; they had nothing to function with. They had shown great activity; they had put in applications to the banks during that one year, or portions of a year, for nearly three hundred millions of dollars; they could not get action on more than 25 per cent of those, and that is when the situation got so bad that the banks simply had to deny them the right to make applications at all. I know that situation to be true of the Houston Bank, the Wichita Bank, the Omaha Bank, the St. Louis Bank, and the St. Paul Bank, those banks being in the great agricultural region.

Mr. STRONG. In other words, they had a log jam of farm loans and they stopped putting any more logs in the stream until they broke the jam?

Mr. MANSON. That is it; that is very properly put.

The point I wish to make is this: It is the natural tendency for anybody to blame that end of the institution he comes in contact with for its failure to function. The applicant does business with the secretary-treasurer of the association; if he does not get action he goes to see the secretary-treasurer and if the latter can not give him some satisfactory reply he naturally concludes that the secretary-treasurer is not attending to his business.

The system broke down, but not in the Farm Loan Association. The place where it broke down was in the banks. Along about October, 1921, a committee of Senators, among others, Senator Kenyon, called on Judge Lobdell to see if something could not be done to speed up the business of the banks. At that time, Judge Lobdell wrote a letter which is published in the Congressional Record of October 20, 1921, pages 7275 and 7278, in which he took the position that they system was functioning normally; that there were physical limitations upon the system; that the banks were not expected and could not be expected to handle over \$150,000,000 a year, and even if some changes were made, not to exceed \$200,000,000. He also took the position that the bond market would not absorb bonds in excess of the rate at which they were then issuing them.

I am not indulging in any personal criticism of the members of this board. I believe they did the best they could under the circumstances and conditions. In other words, I think that so far as they knew how to operate this thing, they operated it to the best of their ability. I do not agree with some of the things they did at that time. For instance, the litigation was decided in the latter part of February and it

was not until May that the bonds were placed on the market. The board, in its report, says it had to wait that long to have the new plates engraved. Now, it strikes me that if they had put the proper push behind this thing, instead of waiting for plates, they could have issued interim certificates which can be turned out by the carload by the Government Printing Office. That is the usual practice of institutions issuing bonds, to issue interim certificates. In fact, in many instances it is done because the institution issuing the bonds does not know whether the purchaser wants registered or unregistered bonds.

Mr. STRONG. Is there anything said in the report about having been delayed in order to get legislation through Congress?

Mr. MANSON. No, I think not.

Mr. STRONG. I remember about the time the issue of the bonds (the \$40,000,000 issue), was determined Mr. Lobdell and Mr. Lever came to the House and wanted this committee to report out a bill lengthening the time of the redemption of these bonds from 5 years to 10 years, claiming they had been advised by the bond houses that that would be necessary in order to float the bonds. We had an emergency meeting of this committee and reported out a bill that was passed the next day, and I was told was needed by them and resulted in their floating the bond issue.

Mr. MANSON. I mean, the reason they advance for that delay. There were no other bonds offered until October. There was a long period of time in which no bonds were in the market. On the 31st of January, 1922, the board reported to the Senate that they had applications pending in the various banks then amounting to \$142,000,000, which were to be taken care of out of the February bond issue of \$75,000,000. In other words, about 52 per cent of the pending applications could be taken care of out of that bond issue. During the months of November, December, and January there was a much better bond market than there was in February when the bonds were actually put on the market. I made a compilation of the amount of securities handled on the regular New York market during those months; I am not going to read the whole compilation but will give the total figure.

Mr. STRONG. Just give the totals.

Mr. MANSON. In February, when the \$75,000,000 bond issue was sold in about 3 hours, the total issues of new securities disposed of on the New York market was \$369,898,974. This did not represent transactions between individuals, but new issues of securities.

In January, when there were no Federal land bank bonds on the market the new securities disposed of amounted to \$446,600,485. In December they amounted to \$551,576,349 and in November to \$386,169,341. The point I wish to make is this: That during any one of those three months when there was not a dollar's worth of bonds issued by the Federal land bank and placed upon the market for sale, there was a better market for bonds, and as many securities, even more, could have been sold as readily during that period as during the February bond sale. When that matter was presented to Mr. Lever, when he appeared before the Committee on Banking and Currency in April, as a result of information I presented to the committee, he explained it by saying that it took a certain amount of time to grind these applications through the mill, as he expressed it.

Mr. STRONG. In the banks?

Mr. MANSON. In the banks, in the Federal land banks.

Mr. STRONG. Yes.

Mr. MANSON. He was asked why they did not employ more help, and he said that that was not where the trouble was. He stated that all of the applications had to be passed upon by the directors or a committee of the directors, and that no more business could pass through the bank than could be handled by that committee. In other words, that was the neck of the bottle of the whole system.

Now, my reason for presenting this matter is not to rehash an old difficulty that has passed. I am doing it for the purpose of bringing out the fact that at the time the Farm Loan Board was making the recommendation that they be permitted to appoint new agents for the purpose of procuring new business, they were not able to take care of the business the existing agencies had already produced. They were so unable to take care of it that for a long time they denied to the existing agencies the right to make applications at all. They refused to give them blank forms of application.

Mr. STRONG. Might it not be fair to construe their recommendation as a request to be granted in the future, when they expected they would not be able to supply every applicant?

Mr. MANSON. That might be true had they at that time taken the view that I took of how this system should function. If at that time they expected to expand the operations of the system to the point where they would take care of the demands upon them, that might be true, but at the time they were making the recommendations

they took the position that the system was not expected to do more than \$150,000,000 a year, and in that very year the farm loan associations had produced \$300,000,000 worth of business, so that I am forced to question the purpose of their recommendation.

Mr. STRONG. Don't you think everybody has been rather amazed at the absorption of these Federal farm loan bonds in the market?

Mr. MANSON. I do not think so, for the reason that they are the best security in the world. In my opinion, they are better than a Government bond.

Mr. STRONG. But you had to convince the bond-buying public of that.

Mr. MANSON. The farm loan bond in Europe is the only thing that survived the crisis. While governments fell, the currency depreciated, and the obligations of European countries were not worth carrying out in waste baskets, the farm loan bond of Germany are good to-day.

Mr. WINGO. I admit that; but didn't it take some time to convince the bond buyers of that fact?

Mr. MANSON. No; for the reason whenever they have put them on the market they have been grabbed up.

Mr. STRONG. That is hindsight, not foresight.

Mr. WINGO. Is there any doubt that if the Federal Farm Loan Board were to authorize the different banks of the country to take subscriptions, permanent running subscriptions to farm loan bonds and to send them in, that you would have at all times an excess of demands for them?

Mr. MANSON. I think we would.

Mr. STRONG. You think that would be a good thing to do?

Mr. MANSON. Oh, yes.

Mr. WINGO. The point is this: I do not want to be put in the attitude of questioning the good faith of the board.

Mr. MANSON. I do not, either.

Mr. WINGO. Your point is you do not concur in their judgment.

Mr. MANSON. That is it.

Mr. WINGO. I have never concurred in their judgment except in one instance; I have never concurred in their judgment, which seems to be the same theory here, that the bond-buying public had not been convinced; my information was that the bond-buying public is like the gentleman that Mr. Quick referred to the other day—he said, first, "I was interested in a patriotic way; I am interested now in a business way." In other words, when you called to the attention of the banking investors of this country—my information was that that was the choice quality of these bonds—that the country bankers over the United States were clamoring for the bonds—and there is not the slightest doubt in my mind that if you had a central bond division in the Farm Loan Board, and if you amend the law, if it needs it, so they can be allowed a very small commission, a commission to all banks to take subscriptions and send them in—that there would be an accumulation of subscriptions of farm-loan bonds even if you were offering them at only 4 per cent. I think the investing public beyond any question regards the farm-loan bond a better investment than the securities issued by the United States. I believe I can float three hundred million in bonds at 4 per cent through the country bankers.

Mr. MANSON. There has been one practical difficulty in the way of operating in accordance with that plan. Where you have bonds on the market at all times you must have the machinery to protect your market.

Mr. WINGO. Why?

Mr. MANSON. Because where the bond is always available there may be some people who are anxious to dispose of bonds in a hurry, and those people will throw their bonds onto the market and depress the market. This bill contains a feature that I am very much in favor of, and that is the central bank. I do not believe the central bank should have all the authority you have given it under the bill, but it has this advantage, that such an organization, if the bonds have dropped below par, could buy, and the mere fact that there was an institution that would buy the minute they dropped below par would obviate the necessity of ever buying.

Mr. WINGO. If you give the board authority, and they have it, to invest their current surplus funds, and the very fact that the board stood ready and had the authority to buy at par these bonds at any time the demand was made, you would have identically the same situation that you have with the Federal reserve note, because there is a place where the Federal reserve note is redeemable, even though there is not enough in the gold reserve.

Mr. MANSON. It is there.

Mr. WINGO. It is 40 per cent; it is like the banker who has not the cash on hand; but if it were known that the Farm Loan Board would buy at par—sometime you might have some estate or some concern investing in them in a temporary way; they

might want hurriedly to dispose of them; but that would be rather easy if they at any time went in and offered a little shade of what the discount was; they could sell them.

Mr. MANSON. Yes, sir.

Mr. WINGO. I have an idea in the course of time you will have bankers who will want a liquid investment, an investment they can use as a liquid investment, for the purpose of getting cash. If I were a country banker and had surplus funds I would keep farm-loan bonds in my drawer all the time, not only for the surplus investment, but for my customers' account, who would say, "I want a safe, sound investment," and in that way you would build up a market whereby the subscriptions to the bonds would exceed the physical possibilities of the neck of the bottle, the ability of the directors of the bank to pass on these. Isn't there a fear on the part of some of the people that we will glut the market with these tax-exempt securities?

Mr. MANSON. I think—and in saying this I do not want to ascribe any dishonest motives to the Farm Loan Board—I think they have been made innocent victims of the bond houses. They confess that they do not know anything about the bond business. None ever had any experience in it except Mr. Norris. My opinion of what happened up to the time we began to set a fire behind them is as follows: The bond houses get 1 per cent commission. That is anywhere from a half to one-fifth of what the bond houses make on an ordinary bond sale, because the usual commissions run from 2 to 5 per cent, and in some cases higher. If a customer buys a farm-loan bond from accumulated savings, he is not in the market for another bond out of which bond houses can make more money. In my opinion, the bond houses have had to carry the bonds because they would sell themselves when they were on the market. It was a case of taking 1 per cent or getting nothing. It has been to their interest that as few be placed on the market as possible. I think the board have gone to the bond houses from time to time to ascertain their views as to whether or not the market would absorb bonds and they have been told, "Well, I think I would let that go over a while; if you put them on now it will knock the bottom out of the market." That is a surmise on my part.

Mr. WINGO. Do you think there would be any more difficulty in doing what I suggest than is being done by the Secretary of the Treasury when he issues his certificates; the papers are full of the fact; they are oversubscribed; he uses the Federal reserve system.

Mr. MANSON. Yes.

Mr. WINGO. And all the national banks of the country can be required to act as the marketing agency of these bonds.

Mr. MANSON. Yes.

Mr. WINGO. Because they, like the Federal land banks, are agencies of the Government; they get certain privileges for being the instrument of the Government, and if the bonds of the farm-loan bank is as good as Government bonds which everybody concedes, then why should it be any more difficult to distribute farm-loan bonds through the same agency, the same channel and the same method as the Treasury certificates and bonds are distributed?

Mr. MANSON. There is no question in my mind; I would not abandon the regular bond market until I had such a market built up. I do not believe in abandoning any means or overlooking any means.

Mr. WINGO. Do you think the plan I suggest is worth a trial?

Mr. MANSON. It is worth trying.

Mr. WINGO. It won't cost anything; they can call on the banks to make the tentative subscriptions.

Mr. MANSON. In the bond issue of October, 1921, and I think in the bond issue of February, the farm-loan associations were not permitted to take orders for bonds from any one purchaser in excess of \$2,500. It was stamped on the application, "No sale to any one purchaser in excess of \$2,500."

Mr. STRONG. Why was that?

Mr. WINGO. When did they do it?

Mr. MANSON. I know that was true in the October issue because I had a copy of the application sent to me by a secretary-treasurer.

Mr. STRONG. Does that indicate to you any failure of the absorbing power? They would have too great a demand?

Mr. MANSON. That is it. I think it was done to protect the bond houses. I believe that when the farm-loan board found themselves up against a situation they did not know anything about, they felt they were absolutely dependent on the bond houses and had to do what they said. I don't say that out of any spirit of meanness; it is my opinion.

Mr. WINGO. It goes back to their judgment; that is the only safe and sure way. You question their judgment?

Mr. MANSON. I question their judgment; the whole purpose of this discussion is to show that the place where the system broke down, the place where the neck of the bottle was small, was not in the Farm Loan Association; that it was in the bank and it was in the method adopted by the board for handling the bonds.

Mr. WINGO. And you have called attention to these things to answer the suggestion the associations have not functioned?

Mr. MANSON. That is it. I say that the experience of the year 1921 goes to show that during that period of time the association was the only part of the Federal farm loan system that did function in the way the law contemplated.

Now, I have no doubt—I know that there is considerable dissatisfaction with the association. I attribute the present dissatisfaction to two things. In the first place, I believe that the complaints we hear at the present time very largely date back to that period of time when the association was not permitted to even file an application for a loan. That is one class of complaints. The association was intended as a check upon the loans that were to be made. The association is a local check. The theory of the association was that the local farmers, the directors in this association who must be farmers, would know their neighbors. They would know the moral risk involved in making the loan, and, being compelled to indorse the loan, they would have a self-interest, and that would require them to exercise better judgment.

Mr. WINGO. Mr. Flannagan will recall that in the original draft of the bill we had a considerable controversy, and a provision was struck out on my motion by which you made them absolutely responsible for all loans; you recall that, Mr. Flannagan?

Mr. FLANNAGAN. Yes, sir.

Mr. WINGO. You did not have a limitation on their stock liability, but each was responsible for the others? In other words, every association was liable to the full extent of the loans placed through the entire association. For instance, if one planter came in and had a plantation worth \$100,000 and he got a \$10,000 loan, and all those members, we will say, got the limit upon their plantations, and he did not, yet if the others failed, he could be gone to for the whole amount, and you remember the fight that was made on that and we finally eliminated it. That carries out the suggestion: the original idea was to put the whole burden and all the protection on through the cooperative indorsement.

Mr. MANSON. A man's application is rejected because they do not want to assume the moral risk.

Mr. WINGO. We have to face that proposition that there is well-founded ground for the complaint—and I understand the facts justify the contention—that men get together and form an organization or association and they get their money and then treat it as a select circle and do not allow anyone to break in; how can you prevent that?

Mr. MANSON. I do not think that particular situation is as common as reported. I do believe this situation is prevalent: that an applicant puts in his application and he is not considered a good moral risk. Under your present system of indorsement, if the applicant or the borrower does not pay his interest and the amortization payment when it is due the whole association is liable to lose its dividend, and therefore they have an interest in seeing that the man not only has good security but that he is also the kind of a fellow who is going to pay his interest when the interest is due. When an applicant is rejected, what is the natural thing for him to do? You represent him in Congress and he writes you and says, "This farm loan association is not functioning, I put an application in there and I can not get the money; they have a monopoly," and he writes also to the Farm Loan Board.

If this system, at the time these recommendations were made, had been so functioning as to take care of all of the applications that came in through the farm-loan associations, I might be led to believe that the move to appoint agents was to take care of the fellows on the outside. The recommendations were made at a time when the head of the board was going on record to the effect that, under normal conditions, the system could not be expected to function to anywhere near half the extent to which the demand was being made upon it. I can not believe they were actuated by a desire to get additional agents. I believe they were actuated by a desire to create an agency that would be subordinate to them and to the banks; I do not criticize them for that.

Mr. STRONG. Do you think there is anything in this: That possibly the fact that these associations were advised of the limitations of the bank had a tendency to make the members hesitate to let anybody in once they wanted to make that restriction?

Mr. MANSON. I think so, because when a farmer has a mortgage maturing, or wants to build a building or something else, the secretary-treasurer would not be acting in good faith if he permitted him to put in an application if he had reason

to believe that loan would not go through, and the man could not get his money when he needed it. For a year, at least, and up until the 1st of May of this year, the associations were restricted, not in the amount they could loan, but in the number of applications they could put in. The secretary-treasurer would get a certain number of blank applications. For instance, one man could loan \$10,000 on one application, but the other fellow having applications for small loans, we will say, \$200, \$300, \$400, or \$500 apiece, would exceed his entire allotment before he had reached \$2,000. The purpose of that was this: The passing on applications made work for the bank and the limitation was placed not upon the amount of money they could dispose of but the amount of work they would create, to be transacted in the bank, getting back again to the proposition that the neck of the bottle was no bigger than the amount of work that could be done by the banks.

Mr. WINGO. That is the argument the men who control the banks make in favor of the larger maximum loan, and it is natural. It is no more work to pass on a \$15,000 loan than it is on a \$5,000 loan; there is more responsibility but there is no more work. In other words, ten \$10,000 loans would involve less work than twenty \$5,000 loans, and it is a natural desire to curtail their drudgery as much as possible.

Mr. MANSON. I believe that if the bank has enough money to meet the demand for all loans the small borrower benefits by the bank carrying the large loans for the reason that the large loan reduces the proportion of overhead. It permits the percentage of overhead to be reduced.

Mr. WINGO. As long as you have an arbitrary loan percentage that is in excess of even the maximum spent on the smallest size loan, what practical difference is there?

Mr. MANSON. The practical difference is this, to take an illustration: I believe the Omaha Bank can pay its operating expenses out of the earnings on its capital, and I believe that the net profits under existing conditions amount to practically the full amount of their margin of charge over the bond rate. Under the law as it stands to-day, when the borrower pays up his loan he automatically forfeits all of his interest in any accumulated earnings which have not been distributed as dividends. I believe that law should be so amended—furthermore, the bank with the consent of the Farm Loan Board may retire its stock without the consent of the borrower and upon such retirement he forfeits all of his right to the accumulated earnings of the bank. It was the intent of the law that the borrower should get the benefit of the net profits to the bank; that they would be distributed back to the borrowers in proportion to the amount of their loans and they would get their money at actual cost. Of course, there is a valid objection to the distribution of an excessive amount of net earnings. The reserves of the bank have not reached the place where they are fixed by the law, and it helps the sale of bonds and adds to the security of the bank if they retain a large amount of surplus earnings, but the law should be so amended as to give to every borrower the benefit of the earnings which accrue upon his investment in stock.

Mr. STRONG. That would tend to tear down the surplus?

Mr. MANSON. No, it would not, because when the present-day borrowers pay up we will say 30 years from now, while they would withdraw their share of the surplus, yet, in the meantime, there would be others building up the new surplus; every borrower would be providing his own surplus; the bank would have more ready money on hand all the time for the reason that instead of distributing the whole business, I would distribute some, because the borrower does not receive the full amount of money he borrows, he has to get a dividend that equals the rate of interest he pays on his mortgage before he gets the money at his mortgage rate. A borrower of \$10,000 subscribes for \$500 stock; he pays interest on \$10,000, and he only gets \$9,500. Unless he gets a 5½ per cent dividend, he is paying a higher rate than 5½ per cent on the money he gets. It is only the excess of dividends over the mortgage rate that represents any profit to him in the transaction.

Mr. WINGO. Certainly.

Mr. MANSON. My idea of that is this: I believe that the borrowers of the proceeds of each bond issue should be separated into classes. My purpose of that is this: You take the February bond issue; they were 5-per cent bonds. That money was loaned to borrowers at 6 per cent. The bonds sold at a premium which made the net yield 4.70, so that the borrowers of that money pay to the banks for the first 10 years they have their loans 1.3 per cent over what the bank pays for interest on those bonds.

Mr. WINGO. All those elements were considered in fixing the differential of 1 per cent.

Mr. MANSON. In that instance the differential exceeds 1 per cent.

Mr. WINGO. I know, and that was considered.

Mr. MANSON. For that reason, I believe it would not take much bookkeeping to separate them into classes.

Mr. WINGO. Get back to your original premises; you were arguing in favor of a larger maximum and the argument you present is one of profit-making in dividends, when the prime purpose is not to make profit, but the prime purpose is to make loans at a low rate of interest. You have the amortization feature and then you have another feature that you are going on and granting the people, especially the smaller fellow, and marketing loans at a reasonable rate, even though you say that he might be taking in bigger loans, but this is very reasonable as compared with loans from private sources.

Mr. MANSON. Oh, yes.

Mr. WINGO. And that benefit which comes to him is a benefit which does not come to the \$15,000 men in some instances at all, especially that one who would go and get his money from a private agency at 5 per cent plus 1 per cent commission or if it does apply it is in the smaller proportion, but the original intent of the act was to help the helpless; was to furnish a market which no private agency furnished on reasonable rate and terms. You say to a farmer, "We will market a loan at 10 per cent." That is practically denying him a market. He could not stand that rate. The original purpose of the act was upon the theory that agriculture is languishing because it is being charged such a toll; it can not thrive on it. The idea was to help the helpless fellow and for that reason they did not go beyond \$10,000. The people who were working on it wanted \$5,000; they wanted to head it off; they are the ones who put the hedgings around it, including the joint-stock land banks; the friend of the rural credits did not do that. They did not put the \$10,000 maximum.

The point I am making is that instead of trying to get your systems developed along the original lines and to a greater extent than in the beginning, on account of the caution of those who wanted to be sure and those who were afraid, they will continue to go in the other direction and get away from the public necessity that made the Government go into this business. You go into the question of profits, larger dividends, easier business, less overhead; you are not thinking about economic conditions, economic distress, in which the whole public as well as the individual farmer is interested. That is the only argument these men asking for that maximum could make; that it is choice business; less overhead, and a lower rate for the choice ones; you are not figuring on how you can meet the demands of the little man.

Mr. STRONG. We are now taking care of the little fellow.

Mr. WINGO. Are you sure you are?

Mr. STRONG. And we would like to take care of the farmer who needs the larger loan.

Mr. WINGO. You can not now with the present machinery take care of the small fellows.

Mr. STRONG. I think so.

Mr. WINGO. Not all of them, but some of them, but you are not taking care of them, to the extent they have become disheartened; they do not go to the system because the delays occur; so, it was not a mechanical impossibility, but for one reason or another, they do not come in, and now instead of offering an incentive, they say they are talking about taking care of the big fellow. If the local secretary or local association can go out and place their business in large loans, they are quite sure to do so, and it is natural that the large loans will be taken care of over the small ones; what we want is to build up the small home owner.

Mr. STRONG. That is one reason for the appointment of agents in order to cut out some of the red tape and get the loans easier.

Mr. MANSON. If you are going to cut out the red tape it ought to be cut out at the point where it is impeding the progress.

Mr. STRONG. That is what we want to do.

Mr. MANSON. When the bank gets to the point where it can take care of the applications promptly and grant the applications that are made within a reasonable time, it seems to me that it would then be proper to consider increasing the agencies, but the real difficulty has been that the smallest point in the stream was in the bank.

Mr. STRONG. I do not underestimate the benefit that will come to the larger planters and farmers. I do not criticize them for their natural desires. I think a great many of them if they were properly advised would now get the very loan they want, the amortized loan in the joint-stock land bank. Their only reason in Iowa now why they want it in this system is on account of the amortization feature. The amortization feature is a big attraction. If a man can get a loan for 6 per cent in a joint-stock bank, and he can also get it privately at 5 per cent plus 1 per cent, then the only difference is the amortization feature.

Mr. MANSON. I am opposed to increasing the minimum unless the bill is so amended to provide that the borrower of \$10,000 shall get the preference.

Mr. STRONG. That is a good suggestion.

Mr. WINGO. Don't you know, measuring the future by the past, that it is going to be the judgment of the conservative business men that the President is going to put

in charge of the concern; don't you know that it is the natural tendency of those men who direct these banks to be more cautious of the other fellow who is trying to get in, and their natural tendency will be to go after the choicer loans.

Mr. MANSON. They can glorify themselves by building up a big institution.

Mr. WINGO. Don't you know that for the next 10 years that this system is going to be in charge of men who believe that there is a way of reaching the saturation point in the bond market and they are going to continue this repressive policy, not intending to be repressive, but saying, "You must not send us so much business; we can only take care of so much." I am not going to question the judgment of the members of the board; that is going to be their honest conviction, and if so, they would not be loyal to their trust if they did not follow that. They are going to give an added incentive to that natural tendency when they raise the limit.

Mr. STEVENSON. You stated that you believe every borrower ought to receive the full amount of the surplus which his stock has earned?

Mr. MANSON. Yes.

Mr. STEVENSON. And you believe also they ought to have a method of classifying the borrowers so that each borrower is represented by a certain sale of bonds from which his money comes?

Mr. MANSON. Yes, sir.

Mr. STEVENSON. You are endeavoring to get back to the system they established when they overhauled some of the life insurance companies in New York and made them distribute some of their surplus?

Mr. MANSON. That is it.

Mr. STEVENSON. And you believe some should be distributed annually and the other should be held until the maturity of the policy, so to speak?

Mr. MANSON. I do, because it will increase his amortization payment by his share in these retained net earnings.

Mr. WINGO. It would increase the deduction to be made from the payment he will have to make.

Mr. MANSON. No; but it would decrease the period over which he would have to pay.

Mr. WINGO. It would decrease the period over which he would have to pay; it might "mature his loan," to use a building and loan association term, in 30 years instead of 33 years.

Mr. MANSON. In the case of the Omaha bank, I believe it would mature in 20 years; I think instead of paying for 33 years he would be paying for 20 years.

Mr. STEVENSON. If it will accelerate the completion of the payments it would be a very desirable end.

Mr. APPLEBY. It certainly would.

Mr. MANSON. I would have my law provide that the bank could carry that money as a surplus that will help the sale of bonds; it will strengthen the bank, but when the farmer pays up, or when the accrued earnings on his stock, added to the payments he has made equal the amount of his loan, that his mortgage should be canceled.

Mr. STEVENSON. You would not allow him interest on that fund that is not distributed? He would take his share of the interest which he has earned?

Mr. MANSON. That is automatically taken care of, because they would simply be carried on to a class each year in the proportion of the earnings. There is another advantage, I believe. I believe the good this system can do is not only found in the amount of money it can loan, but in the competition feature of it as well. In other words, you have seen already that some of the old line mortgage companies have begun making amortized loans. It has forced down interest rates. That leads to an agitation for a decrease in the margin over the bond rate. There is danger in that. It is unjust to the present borrower; he must continue to pay his present rate, 1 per cent over the bond rate; in some cases it may run higher than that on account of the premium on the bonds when they are sold. If you decrease that margin to future borrowers you are permitting some fellows to play the game by paying half the ante.

Mr. STEVENSON. Let us see about that sale of bonds at a higher figure. While it is true it makes a discrepancy between the rate paid on the bonds and the rate paid by the borrower, nevertheless the profit accrues to the whole institution.

Mr. MANSON. Yes.

Mr. STEVENSON. And he participates to the extent of his interest in that profit. Mr. MANSON. Yes; but take this situation; to make it a little clearer. The borrowers under the February bond sale paid 6 per cent. The borrowers under the May bond sale paid 5½ per cent. The reason for that is the February bonds were 5 per cent bonds; the May bonds were 4½ per cent, but when we consider the prices at which they were actually sold, there was no such difference as that. The February bonds sold at a premium which brought their net yield down to 4.70.

Mr. STEVENSON. That is, to the man who bought them?

Mr. MANSON. That is what the banks paid.

Mr. STEVENSON. It pays 4.70 on the money it got?

Mr. MANSON. Yes.

Mr. STEVENSON. That being so, the bank loaned that money at 6 per cent?

Mr. MANSON. That is it.

Mr. STEVENSON. The bank was making more money and the borrower, of course, got his proportion of the profit and the next borrower gets it, too?

Mr. MANSON. That would be true if the bond sales yielded the same, but they reduced the interest rate. It is impracticable to offer bonds at just exactly the interest rate at which the market will absorb them. The 5 per cent bond will sell at a premium and the 4½ per cent bond at par when you will have to pay for selling them.

That means that the bank got less than dollar for dollar on the bonds. However, the fellows who borrowed under the second bond sale, which did not vary anywhere near a half of 1 per cent, got their money for half of 1 per cent less than the fellows under the first. The only way you can equalize that is to divide them into classes. If that had been done in the February class, that class would have—

Mr. STEVENSON. In other words, the profit to be made on the sale goes to the people who borrowed that money?

Mr. MANSON. Yes.

Mr. STEVENSON. So, if they paid a higher rate—

Mr. MANSON. They get it back; it is not split up with the fellows who give a lower rate of interest as a result of the bonds selling at par.

Mr. STEVENSON. I see the point.

Mr. MANSON. For instance, another thing, under such a law as that you could reduce your margin. You could loan the proceeds of 4½ per cent bonds if you wanted to without any injustice to fellows paying in a margin of 1 per cent. Until you do develop them into classes, you can not reduce that margin of 1 per cent without doing injustice to those who are already borrowers.

Mr. STEVENSON. Isn't that a matter of regulation by the board?

Mr. MANSON. I do not think they are authorized to do that under existing law.

Mr. WINGO. Don't you think there is this one feature that must have appeared; that it is to the advantage of the borrowers and the farmers whether they are in the system or not to see that rate is gradually reduced as the experience of the board shows that the system can be successfully operated with the reduction?

Mr. MANSON. To do that with justice to those already in, you must separate them into classes and give them the benefit of the earnings on the stock; there is an agitation in the Omaha district to reduce the interest to 5 per cent.

Mr. WINGO. Why is that; on account of excessive dividends?

Mr. MANSON. No; they are able to do it out there.

Mr. WINGO. Their dividend rate shows they are able to do it?

Mr. MANSON. Yes.

Mr. STRONG. They have reached the point and made an accumulation; they have a class dividend and special dividend, have they not?

Mr. MANSON. Their net earnings warranted it.

Mr. STRONG. They say they can without any question reduce it; that is the judgment of those insisting on it?

Mr. MANSON. Yes; but if they did it under existing law it would mean a new class of borrowers are brought into the system who only contribute half as much to the funds out of which the dividends are paid as the fellows already in, but he would participate in the fund the same as the fellow already in. You can amend the act so that when a stock is retired it shall be retired at the book value of the stock and divide it into classes and then credit each class to the extent of the earnings of that class.

I want to suggest that the provision increasing the limit be amended by adding the following:

"Provided, That no loan exceeding \$10,000 shall be made by any Federal land bank unless such bank at the time of closing said loan shall have on hand available for loaning sufficient funds to cover all pending applications qualified under the provisions of the Federal farm loan act for loans under \$10,000."

In other words, I am in favor of an increase in the limit, but not at the expense of the small borrower, and if the limit is to be increased, I want the small borrower to be protected.

Mr. WINGO. Don't you think there ought to be a further amendment to that so as to put a limit on some specific amount?

Mr. MANSON. I do.

Mr. WINGO. You understand the board might authorize \$100,000?

Mr. MANSON. I am afraid it is going to hurt the bonds unless there is an exact limit fixed

Mr. WINGO. Aside from that, whatever limit is fixed is only to be fixed by legislative enactment, clear and specific?

Mr. MANSON. Yes.

Mr. WINGO. If you are going to make it \$15,000, say so; if you are going to make it \$20,000, say so; if you are going to make it \$25,000, say so.

Mr. MANSON. The difference between this system and the joint stock is that in the joint stock they are financed by private capital and they are dealing with their own money, and in this instance it is more or less of a trusteeship, no matter how the directors are elected.

Mr. WINGO. The suggestion has been made that you make the maximum of the Federal land bank the minimum of the joint-stock land bank; what do you think of that?

Mr. MANSON. The best way to regulate the joint-stock land bank is by active competition. I do not believe any business can succeed if it is being hampered by legislation. There is a great deal of agitation for the regulation of the joint-stock land bank. I believe that if you permit competition to these banks, that the competition itself will be all the regulation that is necessary.

Mr. WINGO. I do not know what you mean by "all the regulation that is necessary." You understand the competition between these two banks is different from the competition between two commercial banks on opposite corners of the street.

Mr. MANSON. The competition is this: To give you an illustration, Senator Borah introduced a bill to limit the profits on joint-stock land bank stock to 6 per cent. I believe that the joint-stock land bank has served a most useful purpose; it has brought nearly \$200,000,000 to the aid of agriculture.

I believe the enactment of such legislation as that would put it out of business because it could not sell its stock, and if it could not sell its stock it can not continue to issue bonds. It can only issue bonds up to fifteen times its stock. On the other hand, you can regulate the profits of the joint-stock land bank by having it compete with the Federal land bank, and if the Federal land bank is going into the field of making larger loans, the joint-stock land bank has to meet that.

Mr. WINGO. On the other hand, they are not authorized under the law to go out and bid against each other in the only way bids can be made, in the rate of interest. The best competition is the rate of interest and terms. Under the law the amortization and interest is the same. They could not go out and say, "I will make you so much" and the other say they will make a little better; you do not have that kind of competition—

Mr. MANSON. I beg your pardon, Mr. Wingo. Joint-stock land banks have a maximum fixed. It could not exceed 1 per cent in excess of the bond rate nor 6 per cent. But it can loan its money just as cheaply as it sees fit. If the Federal land bank is so operated that its borrowers are receiving their dividends directly or indirectly in the way that I have outlined, why, they are getting certain advantages.

Mr. WINGO. You gave the answer that I thought I would get. You think then, as a logical conclusion, if you permit them to compete in a certain zone, that sooner or later the Federal land banks in order to get business, will cut their interest so low that then the joint-stock land banks will cut down their interest rate in order to get the business.

Mr. MANSON. I do not have the same conception of interest in case of a Federal land-bank loan that you have. I am not concerned with the rates charged on the mortgage if they will give the borrowers the benefit of the earnings. I would rather see them continue at the present rate if they will give the farmer the benefit of the earnings because it means he is amortizing his loans faster.

Mr. WINGO. Do you think the competition is going to force that?

Mr. MANSON. I think so.

Mr. WINGO. How? What will be the economic feature, the selfish feature which will force it; that is always the result of competitive effort.

Mr. MANSON. If some provision is made so the farmer gets the benefit of the earnings, he gets his money at actual cost—the borrower from the Federal does. Now, then, if the joint stock is going to continue in business, it will have to meet that. There are some people who will prefer to pay the joint stock more than it would cost in the Federal because they are not required to use any portion of the money to buy stock. They get the full amount of the loan; another advantage is that the borrower assumes no liability of loss.

Mr. WINGO. If the Federal land bank system is conducted according to the original philosophy, it is not a profit-making institution?

Mr. MANSON. No.

Mr. WINGO. Then it will be a physical impossibility for a private money-making institution like the joint stock land bank to compete with it.

Mr. MANSON. Not necessarily. In Germany you have both systems, which have existed 150 years. The reason is this: Some prefer when they make a loan to know how much they are going to pay; they are going to pay certain interest, and they do not expect to get back any rebate in the shape of dividends; and they do not want to incur any liability. There are some people who do not want to go into cooperative schemes.

Mr. Wingo. The only difference then if the joint stock land banks made a profit and the Federal land banks ran at actual cost, the only benefit to the man choosing between the land bank and the joint stock bank will be the question of the stock subscription and the liability.

Mr. MANSON. I do not think there is—

Mr. Wingo. Is there any other?

Mr. MANSON. I do not know.

Mr. Wingo. Can you conceive of any other?

Mr. MANSON. No.

Mr. Wingo. I am not asking in any argumentative way; in other words, I want to get all the elements you have to consider.

Mr. MANSON. Yes.

Mr. Wingo. If that be true in theory as well as in practice, there can not be any competition in the sense the word is used that will be beneficial to the farmer.

Mr. MANSON. No. There will be some, I think.

Mr. Wingo. Don't you think that if you will follow the question of competition to logical conclusion the joint stock land bank would do what its proponents originally intended, eat up the Federal land banks and drive them out of existence?

Mr. MANSON. No, indeed. I believe that if these two systems were permitted to function without having a brake on either one of them, that both would go along, each in its own field. For instance, there are some men who are perfectly willing to buy stock and assume the liability of loss in order to get cheaper money. There are other men who would rather pay a little more interest without assuming any such liability.

Mr. Wingo. I can follow you there; you are in the selective field and not the ordinary. There are only two features; the one in question you have just raised, the collective feature, and the other is the amortization feature, and it is the only strong argument to my mind that has ever justified the joint stock land bank, that the Federal land bank and the joint stock land bank operating singly and soundly can not meet the needs of American agriculture, and you need both.

Mr. MANSON. That is it.

Mr. Wingo. And that is the only argument I have ever seen that the joint-stock land bank should be superimposed on the other.

Mr. MANSON. Yes.

Mr. Wingo. Does not that dispose of it, having the maximum of one the minimum of the other?

Mr. MANSON. Well, personally, I come from a country where the ordinary economic farm unit represents an investment of about \$50,000. The economic farm unit is 160 acres of land and it is a cold country. With the proper buildings for the operation of a dairy farm the investment will represent about \$50,000. Personally, I can not see any reason why the farmers who have to carry that kind of an investment should not have the opportunity to go into a cooperative institution such as this, or such as this is supposed to be, if they desire. Personally, if I were to borrow \$25,000 I would rather borrow \$25,000 at 5 per cent interest with no expectation of ever getting back a cent than I would to assume the liability of losing 10 per cent of that or \$2,500.

Mr. Wingo. That is the very point I am making. Don't you know that ultimately the public will come to the conclusion that it is better to go into the joint-stock land bank; the larger borrowers, then, if you permit them to go into the competitive field of the smaller intermediate credits—that is, \$8,000, \$10,000, or \$12,000 and along in there—that it will mean one or the other will have to get out of the field whenever you reach the saturation point.

Mr. MANSON. That has not been the experience in Europe.

Mr. Wingo. There has been no experience in Europe that is comparable to ours, because everything is different. What is the average farm in France?

Mr. MANSON. I should say about 10 acres.

Mr. Wingo. There is quite a difference between that and 160 acres.

Mr. MANSON. That is true.

Mr. Wingo. Also a difference in custom, laws, acreage, crops, marketing, and everything. There is no more a comparison of France and the farmers of America than there is between a Congressman and a bishop.

Mr. MANSON. I think the amount is a point of individual preference.

Mr. Wingo. Have you touched on the central-bank proposition?

Mr. MANSON. No; I have not yet, but I would just as soon discuss that.

Mr. Wingo. Do you favor that?

Mr. MANSON. Not in the bill as drawn.

Mr. Wingo. Do you favor a central-bank scheme of any kind?

Mr. MANSON. I think it might be useful; whether it would justify the additional expense, I do not know.

Mr. STRONG. A monarchy might be useful, but it has its drawbacks which make men prefer a republic.

Mr. MANSON. The bill provides that after the directors of a Federal land bank have determined that it is necessary to issue bonds because of the demand in their district, they apply to the Farm Loan Board for authority, the same as they do now. After the Farm Loan Board has authorized the issue, this bill authorizes, but does not require, the central bank to issue the bonds. In other words, instead of going through two operations you have to go through three. The directors of the central land banks are the presidents of the different banks. After the directors determine the requirements of their district requiring the issuance of bonds they go to the Farm Loan Board. It seems to me that is sufficient. Under this bill any seven directors representing any of the 12 banks can tell the Omaha district, for instance, how much they shall get, and I do not believe in any such centralization of authority as that. I think the directors of each bank should have authority to issue the bonds in accordance with the needs and demands of their own district.

Mr. Wingo. Subject to the approval of the board.

Mr. MANSON. Subject to the approval of the board, and I think that approval of the board should go to the character of the security. In other words, I do not think that the board, a governmental body, should be charged with the business function of determining when bonds should be issued.

Mr. Wingo. Let me get that; you think the question of when the bonds should be issued, as long as they comply with the requirements of the law and the regulations of the board, is a question of business judgment for the directors of the banks?

Mr. MANSON. Absolutely.

Mr. Wingo. And the only function of the board should be to see that the law is followed with reference to the character of the paper and the other limitations?

Mr. MANSON. Yes, sir; the board already has machinery in operation. No loan can be made by a Federal land bank without the approval of the appraiser who is appointed by the board. When a bank applies for authority to issue bonds, the question before the board should be whether or not there are any mortgages offered as security which have not been properly approved by the appraiser; whether or not the law has been complied with in all particulars. I do not think that they should be given any judgment as to when the farmers of the Omaha district or the Wichita district need money.

Mr. Wingo. This argument is made in answer to that; that there is a value in having one joint issue; in other words, pooling the credit of all into one credit; is that sound?

Mr. MANSON. I do not think so.

Mr. Wingo. If the committee should decide that there was virtue in that, that there was an advantage of pooling, and have one central issue and allot the proceeds to the bank, then the contention is made that, with the pooling of the issue and the responsibility, then the head of each of the banks has some say so on all these issues. In other words, does not the collective restraint and supervision of all naturally follow whenever you undertake to have a collective issue with a collective liability?

Mr. MANSON. That is probably true.

Mr. Wingo. Isn't it true in theory?

Mr. MANSON. In theory, yes.

Mr. Wingo. Isn't the choice referred to the committee as to whether or not you will have a joint issue or separate issues; if you are to have joint issues then the question is what is the proper machinery for that. Will you have separate banks or a separate bureau or the board as it is doing now? If you are going to have a joint issue, that first question decided, you will have a joint issue, or an individual issue; then, if you have a joint issue, what particular agency will you have to make that? Assume the committee decides it is proper to have a joint issue, what agency would be the proper agency to make it?

Mr. MANSON. I think the agency here is the proper one. I think that if you are going to have poolings made, no better plan could be worked out than having it governed by the presidents of the banks. I think, however, the idea is fundamentally wrong. I think one of the purposes in creating the Federal farm loan system was to give the farmer the means of getting into the money market himself. I do not think

it was contemplated that the Government was going into the lending business. The only reason the Government ever put any money into the banks was to prime the system as you would prime a pump, and it was intended that after it had been started it would be financed by the capital of the borrowers. My point is this: I think that the principal value of cooperative control of this system is the right to say when it shall function. There are two dangers I can see in perpetuation of Government control. Not casting any reflections on any members of the present board, it is well known that it is easier to handle 4 than it is 4,600. I believe that had the banks been administered by directors who could have gone to the Farm Loan Board and said, "We are elected by the associations; our associations want money; the farmers need it; we want to issue bonds and we are going to issue bonds, and here are our securities," I do not think you would have had the tie up you did have for over a year. I think had the directors been elected by the associations they would have been responsive to the demand of the associations for money, and that demand was tremendous. You were not here when I mentioned it.

Mr. WINGO. Is there anything in this suggestion, and it is comparable to your Federal reserve system; the directors of a mercantile bank or a national bank decide whether or not they will make loans, and it is contended by a lot of us that when members of the Federal Reserve Board, through the Federal reserve banks, undertake to tell the local banker what should be the volume of his business, that was invading his prerogative; that the only function of the supervisory control is when the Government or the collective organization became liable by issuing Federal reserve notes or making rediscounts to banks.

Mr. MANSON. That is it.

Mr. WINGO. Suppose you have that; the election of the directors by the farm loan associations, then have you not still got and isn't it the contention of the proponents of the bill, that you have the same supervisory control where there comes an issue of bonds that the Federal reserve system has over the private banks of the Nation. I am not adopting the argument; I have an answer to it, but I want yours. Your contention is that you want them to elect the directors, but you would let the directors of the banks themselves say how much rediscounts—to use a homely expression—it is intended by the opponents of this bill, and your contention is that you give to the borrowers through their directors a right which would be comparable to giving the banks of the Federal reserve system the right to say to the Federal bank that "you make us rediscount absolutely on our say so." How are you going to answer that argument?

Mr. MANSON. My answer is this: That the Federal reserve system issues notes which pass as currency while the bonds have to go onto the market and be sold. It is entirely different. I believe that the very purpose of requiring the farmer to furnish the capital and assume the risk of loss was to give him the machinery whereby he could get into the money market with his securities, and it is not a question of inflating a medium of exchange; these bonds are a permanent investment and not a medium of exchange; it is an entirely different situation.

Mr. STEVENSON. And not redeemable by the United States Government?

Mr. MANSON. No; not redeemable by the United States Government?

Mr. WINGO. I think that is a good argument.

Mr. MANSON. I just want to call your attention to what happened to the February bond issue to show you one reason why I am opposed to the centralization of authority. The February bond issue amounted to 52.79 per cent of the amount of applications on hand in the banks on that date.

Mr. WINGO. Approved applications?

Mr. MANSON. Applications forwarded by farm loan associations with their approval.

Mr. WINGO. Not approved by the bank?

Mr. MANSON. Not approved by the banks. The Springfield Bank got 117 per cent of the amount of applications they had on file; Baltimore Bank got 51 per cent; the Columbia Bank got 26 per cent; Louisville got 70 per cent; the New Orleans Bank got 63 per cent; the St. Louis Bank got 44 per cent; the St. Paul Bank got 119 per cent; the Omaha 32 per cent; the Wichita Bank 57 per cent; the Houston Bank 77 per cent; the Berkeley Bank 39 per cent; and the Spokane Bank 53 per cent.

Mr. WINGO. On what theory and basis was that distribution made?

Mr. MANSON. I have not the least idea. Mr. Lever appeared before the committee and offered no explanation of it except it was their judgment. I believe this, that the farmer having furnished the capital for this system, having assumed the loss, ought to be permitted to have it function in accordance with the needs of the district in which the bank is located, and that a bank located near New York in an old community where there is a lot of money ought not to be able to say to the bank located down

here at Columbia, "We want a good share of this money and you take 26 per cent and we will take 117 per cent of the amount of applications we have on file."

If this system is to serve its purpose, it has to respond to the demands of agriculture.

You take a railroad company; it is big enough so that it can go into the money market with its bond issues whenever it pleases. It has to go to the Interstate Commerce Commission and have its bond issues approved as to the purposes of the loan and as to the security behind it, but when the purposes of the loan have been ascertained by the Interstate Commerce Commission to be legitimate and the security adequate, nobody can say to the railroad company, "You can not go into the market now because some other railroad company wants the money."

What is true of a railroad company is true of every public utility. They must go to commissions established by the State governments, who examine their issues for the purpose of ascertaining if the public is going to be fleeced, or whether or not they are watering their stock, but when those matters have been decided they are at perfect liberty to go into the money market whenever they please and to whatever extent they please. Farming is one of the things that can not be syndicated; it is not economically carried on in any larger than certain given units, and the farmer is not able, with the kind of a loan he wants, to get into the money market as an individual. I can not see any reason why or earth he should be taxed 10 per cent to finance this system unless it was thought he might be independent; unless it was thought he might have the control of the machinery in his own hands for the purpose of getting into the money market himself.

Mr. STEVENSON. That represents, on the average loans made by the Federal land banks this last year, a liability of \$300 on each stockholder?

Mr. MANSON. That is it.

Mr. STEVENSON. Each stockholder having \$150 is liable to \$150 more?

Mr. MANSON. That is right.

Mr. APPLEBY. On your allotment to the different districts you stated that Springfield got 117 per cent?

Mr. MANSON. Yes.

Mr. APPLEBY. How much does that mean in money?

Mr. MANSON. Three million.

Mr. APPLEBY. And Columbia?

Mr. MANSON. They got 26 per cent.

Mr. APPLEBY. How much in money?

Mr. MANSON. \$7,250,000.

Mr. APPLEBY. Could they take any more at Columbia than they got?

Mr. MANSON. I do not know about that. Personally, I do not believe it was ever intended that this system should have any limit on its capacity for business. I have never heard of a life insurance company that turned down an application for a policy on the ground that it had more business than it could do.

Mr. APPLEBY. Don't you think it gets back more or less to the community which has the surplus money in the banks to take over the issue?

Mr. MANSON. That was not the case at St. Paul.

Mr. APPLEBY. It was the case at Columbia, wasn't it?

Mr. MANSON. I know of no limitation in the law on the amount of business they could handle. It seems to me that if the management of the banks had any conception of the problem before them they could so organize the bank that they could handle it. It seems the neck of the bottle is the capacity of the directors to do business, and at the same time your very bill provides for the reduction of the number of directors.

Mr. COOPER. Don't you happen to know that no Federal land bank has ever during any month been able to close more than \$3,000,000?

Mr. MANSON. I know none have closed with more.

Mr. COOPER. You know that there are three members of the executive committee? Mr. MANSON. Yes; you can have three executive committees if you have nine directors.

Mr. COOPER. No; under the present law we can not, but those are the physical effects; the bank is limited in its physical ability to examine and approve the loans.

Mr. MANSON. My suggestion in that connection, Mr. Cooper, is this: If you want to do away with the red tape, why if that is the place where the limitation is, do away with it there. If these applications must be passed upon by directors, it strikes me as peculiar that the board should come before Congress and ask to have the number of directors provided by law reduced when at the same time they claim it is the capacity of the directors to handle the work that places the limit.

Mr. COOPER. Don't you know the directors do not pass on the loans, but the executive committee does?

Mr. MANSON. If that be true, it would seem a very simple amendment to provide for increasing the size of the executive committee.

Mr. COOPER. Yes.

Mr. MANSON. I would make it a committee of the whole and divide it into subcommittees. I do not think I would permit a thing of that sort to interfere with its functioning. The fact that twelve banks were created—it was intended that they should take care of the work that was to be done.

Mr. COOPER. In the various districts.

Mr. MANSON. Yes.

Mr. APPLEBY. Proceed with your subject.

Mr. MANSON. And that gives rise to another objection I have to this bill, in that it reduces the number of directors, and I speak about it for the reason advanced by Mr. Cooper that the loans must be passed upon by men who are members of the board of directors.

Mr. COOPER. Or the executive committee; officers of the bank, not the directors.

Mr. MANSON. Then, I would amend that.

After a great deal of effort there has been a market established for these bonds, a market that at the present time is absorbing these bonds as fast as they are offered. Whether or not the scheme of making loans without indorsement is a better scheme than the present scheme of making only indorsed loans, is, at least, a different plan, so that the bond that goes into the market is a different security, backed by different collateral. Whether that collateral is as good or not, it is different, at least, and that means that the present market which has been created for this security, backed by indorsed loans, will not necessarily be the market for the new security that will be offered if this bill becomes a law. I believe that the security behind the new bond, or behind the bond that will be issued, if this bill becomes a law, is not as good a security from the standpoint of the investing public as the existing security. It is said that the only security behind them is the farm mortgage or the double liability; that will be there whether the loan is made direct or through the farm loan association. It is different; the double liability of an indorser is a liability to pay when the mortgage or interest becomes due.

Mr. GOLDSBOROUGH. How often have they been called upon to make good?

Mr. MANSON. In what way?

Mr. GOLDSBOROUGH. In the last five years have any of them been called upon?

Mr. MANSON. They have been called upon in this way.

Mr. STRONG. They never have been called upon.

Mr. MANSON. I have had instances reported to me. I know it is the practice of the Federal land bank of Houston, when there is a default in the amortization payment and interest, to hold up the entire dividend of that association to give them an opportunity to remit. If the association does not make good on that default within a certain period of time the bank deducts that amount from the dividend due the association. The double liability of a direct borrower is not worth a continental at the time the payment is due, for the reason that if he can not pay his amortization payment and interest, his double liability will not help.

Mr. GOLDSBOROUGH. But the other members of the association have their double liability?

Mr. MANSON. I understand; but it is the direct borrower I am talking about. If this bill becomes a law, the board is authorized to make loans without the association indorsement.

Mr. GOLDSBOROUGH. I understand that.

Mr. MANSON. Under the existing system—

Mr. GOLDSBOROUGH. In what percentage of the total business of the farm-loan system that has been procured, in what percentage of the cases has the individual borrower been called upon to make good any part of his double liability?

Mr. MANSON. I do not think he has ever been called upon to do it. The fact of the matter is that in the case of a direct loan without indorsement it is only the individual dividend payment that the bank could look to, while under the present system the bank could look to the dividend due all the borrowers of the association. Now, this is true, that it does not make any difference how good the security is behind the bonds; the thing that determines their value and salability is the prompt payment of interest when the interest is due.

Mr. STRONG. Would the default of any individual affect the principal?

Mr. MANSON. The default of any considerable number would.

Mr. STRONG. Do you apprehend that would be likely to happen?

Mr. MANSON. I know it can not happen under the present system.

Mr. STRONG. Do you think it might under any system.

Mr. MANSON. It might. That the bondholder now knows and the bond house handling the bond knows that the bank has a means of enforcing the payment through, first, the dividends due the association; second, through the reserves of the association. Mr. Cooper testified that these reserves and the surplus amounted to nearly \$800,000, and then through the double liability of the stockholders in the association.

Mr. STRONG. You do seriously believe that under the management of the Federal Farm Loan System either under the present bill or the law as it is, that there will be any danger of the default liability being enforced?

Mr. MANSON. Oh, yes, I do; certainly, I do. I think that the default liability will be enforced in many instances on the stock held in the associations.

Mr. STRONG. It is very remote.

Mr. MANSON. No; I do not think it is very remote.

Mr. STRONG. Don't you think that the bonding houses or the bond buying public look to the fact that these loans are made on farm bonds worth double the amount of the loan?

Mr. MANSON. Certainly.

Mr. STRONG. And the supervision by the Government as being the strongest element of the security they buy?

Mr. MANSON. When you talk about the supervision, I believe without the legitimate government supervision you could not sell the bonds at all. On the other hand, I do not believe that the Government management adds anything to the value of the bond, and I am supported in that belief by the facts. The law now provides and always has provided that upon the termination of the temporary control, the bank shall be managed by boards of nine directors, six of whom shall be selected by the association. That temporary control may be terminated at any time. It is dependent upon the continuance of the holding by the Treasury of certain farm loan bonds purchased by the Government. Some of those bonds have been—\$42,000,000 have been retired already. The present market would absorb all the remainder if Congress would permit the Treasury to sell them. No bondholder has any reason to believe that these bonds may not be disposed of at any time. Every bondholder who has bought a Federal land bank bond has bought it under a law which provides for association control of these banks.

My opinion is that instead of depending upon the continuance of the present control through the farm loan board that investors realize that farmers are naturally conservative, and have bought these bonds contemplating that within a short time the system would pass into agricultural instead of political control.

Mr. STRONG. You say "political control?"

Mr. MANSON. Yes; I say it advisedly.

Mr. STRONG. It might be political control if you put it in the hands of farm organizations.

Mr. MANSON. I do not think so.

Mr. STRONG. If somebody started a campaign to be president of one of the banks, it might not be Republican politics and it might not be Democratic politics, but it would be a political game on his part to secure control.

Mr. MANSON. Yes.

Mr. STRONG. I want to get this thought: In all the advertisements which you have seen with reference to the sale of bonds, did you ever see it mentioned that there was a double liability?

Mr. MANSON. I do not recall; to tell you the truth.

Mr. STRONG. I have never seen the double liability referred to.

Mr. MANSON. I do not recall; I will say this; I know that no bond house handles these bonds without examining the law under which they are issued.

Mr. STRONG. They hadn't ought to.

Mr. MANSON. They do not; that is not the way bond business is transacted.

Mr. STRONG. They would not, if I was their attorney.

Mr. MANSON. There is no reputable bond house that handles them that does not know the provisions of the law, and every bond that has been sold has been sold with a knowledge of the law by the bond house that has sold it.

Mr. STRONG. But they have been sold to the individual who has no knowledge of the law.

Mr. MANSON. If he has no knowledge of the law he does not know the banks are under political control.

Mr. STRONG. The individual buys the bond because he knows they are secured finally by a mortgage on real estate for double the amount of the loan, and it is supervised by a Government board; don't you think that is the security he depends upon?

Mr. MANSON. Yes; I do; but not exclusively.

Mr. STRONG. Oh, no; not exclusively.

Mr. MANSON. No.

Mr. WINGO. I think in connection with the statement a little while ago you called attention and gave the figures on the distribution of the proceeds of the last bond issue?

Mr. MANSON. Yes.

Mr. WINGO. In which you showed that the New England bank had 117 per cent; that is the allotment of the percentage of the bond sale to that represented 117 per cent?

Mr. MANSON. Yes; 117 per cent.

Mr. WINGO. Of the applications they had on hand.

Mr. MANSON. That is right.

Mr. WINGO. Whereas in some banks it only represented 26 per cent, or 44 per cent?

Mr. MANSON. Yes.

Mr. WINGO. Now, did you go further and ascertain whether an allotment was made to the different banks which actually covered as much as the banks themselves said they needed to meet the loans they had approved and were approving?

Mr. MANSON. I do not know anything about that.

Mr. WINGO. For illustration, this is what I want to get, in justification for the board—

Mr. MANSON (interposing). I do not doubt that they had some good reason.

Mr. WINGO. I do not want any misconception to be in the record that might cause somebody to become suspicious or unjustly critical of the system; if, as a matter of fact, these banks that got only 44 per cent, St. Louis, take that as an illustration; if the board allotted to that every dollar in dollars and cents that the directors of that bank said "We need at the present time and can use," then, that would not be discrimination even though that allotment was only 44 per cent of the amount of applications that might be pending.

Mr. MANSON. That is true, and I think what happened was this: That is, the banks have been so organized that they have a limit on the amount of business that can go through the bank. I do not think that Congress ever contemplated there would be any such limit, but I think the Columbia Bank got all the money it could handle within the period of time it was expected that bond issue would cover.

Mr. WINGO. It was given \$12,000,000?

Mr. MANSON. \$7,250,000.

Mr. APPELEY. In May?

Mr. WINGO. \$12,000,000, as a matter of fact, at that time the directors were only asking for \$10,000,000, and yet the \$12,000,000 did not represent 100 per cent of the pending applications.

Mr. MANSON. No.

Mr. WINGO. Because it is very certain that not all would be eligible loans.

Mr. MANSON. No.

Mr. WINGO. Not all could be immediately reached and approved, and the thought I want to leave in here is that you have not any grounds to charge that they deliberately discriminated in the distribution of the proceeds on a basis other than what the directors said was their actual present needs.

Mr. MANSON. I meant no inference at all.

Mr. WINGO. That inference might be drawn from the record, and I thought that that ought to be put in the record.

Mr. MANSON. I also stated the fact that I do not know what grounds they had for distributing the money in that way.

Mr. WINGO. If there is any discrimination, it would be in the limit that would be fixed?

Mr. MANSON. Yes.

Mr. WINGO. And your contention is the law does not authorize them to fix the limit in volume other than the automatic limit which comes from the number of eligible loans?

Mr. MANSON. There is one other point I would like to mention at this time. It is my opinion that there will not be a farm loan association left in two years. The purpose of the organization of the farm loan association is to pool the credit of the borrower. The function of the association is to pass on the loan and indorse it. This bill permits the voluntary liquidation of the association. I, personally, think that any borrower from the Federal land bank system who would not vote to liquidate his association, if this bill becomes a law, ought to have his head examined. As long as his association continues to exist he may at any time be called upon—in the first place, he may lose his dividends if some fellow member does not make his payment to the bank, and, on the other hand, he may be called upon to make good on his double liability.

Mr. WINGO. Would he be called upon to make good on his double liability even if his association was abolished?

Mr. MANSON. No; for this reason: The double liability of the direct stockholder in the bank can only be enforced when the bank has gone into liquidation. If you will note the words of the act, they provide that the direct stockholders shall be answerable for the debts and contracts of the bank. To whom? Not to the debtors, but to the creditors of the bank, and it is necessary that the bank liquidate its assets; turn them into cash.

Mr. WINGO. The contingent liability there is an asset of the bank.

Mr. MANSON. It is a contingent asset of the bank while the liability in the case of the association is a contingent asset of the association.

Mr. STEVENSON. And it is a contingent liability of the stockholder and that depends upon whether the assets of the bank will pay the outstanding liabilities.

Mr. MANSON. That is it.

Mr. STEVENSON. Until that is determined there can be no liability of the stockholder at all.

Mr. MANSON. No; the difference is this: That the double liability where it is now can be utilized in order that the bank may never suffer a loss; in other words, that double liability must be exhausted before the net profits of the bank can be affected. It is a double liability that was placed so that the bank will never become insolvent; that the bank will never fall down on the payment of its principal and interest. Of course, if a borrower has a public spirit which surpasses his personal interest and wants to see the system go on after he has his loan, and is willing to stand that liability, he would probably vote against liquidation. Whoever put that provision in this bill had a sense of humor.

Mr. COOPER. Mr. MANSON, is it your contention that under the present law a farm-loan association can not liquidate voluntarily?

Mr. MANSON. Yes.

Mr. COOPER. Will you explain this language: "No national farm-loan association, Federal land bank or joint-stock land bank shall go into voluntary liquidation without the written consent of the Federal Farm Loan Board."

Mr. MANSON. That does not say anything about an association. I will explain that.

Mr. COOPER. Yes.

Mr. MANSON. All of the loans made to an association might be paid off and if they were all paid off the purposes of that provision is to keep the association as an organization alive. There is no way under the present act that an association can escape its liability as an indorser by liquidating. Suppose it did not liquidate; the mere fact that you wrote in the law a permission to liquidate destroys the value of the indorsement as an element of the security of the bonds. One more thing and I will quit.

We have had this system tied up for 18 months in a lawsuit. There is a grave question in my mind as to whether the bondholder has not a vested property right in that indorsement as a part of the security behind his bond. There is a grave question in my mind as to whether Congress has the right to authorize the indorsers to voluntarily liquidate. I am not going to argue the merits of the question, but there is enough to it so that Brother Chanault is very liable to grab it and start a lawsuit, and you will have another lawsuit tying up the system for another period of 18 months or two years, no matter how it is decided.

Mr. STEVENSON. The bondholders would be the only people who would have a grievance.

Mr. MANSON. But it only takes \$40 to buy a bond. I do not want to see anything, gentlemen, put this system in litigation.

Mr. STEVENSON. Adverting to the statement just read that they could not go into voluntary liquidation without getting consent of the Farm Loan Board, that is merely a statement they could not go into liquidation; and certainly it would not be voluntary if they have to get the consent of the Farm Loan Board, and I do not think the—

Mr. MANSON (interposing). No. Whoever put that in there evidently had this situation in mind, that the loans made through an association at some time might all be paid off, in which event it has no liability.

Mr. STRONG. I think the idea was this, where an association was not functioning, and they were taking the position they did not want to invite any other men into it who wanted loans, then those fellows could liquidate and get out of the way.

Mr. STEVENSON. With the consent of the board?

Mr. STRONG. Yes.

Mr. STEVENSON. It is not entirely voluntary.

Mr. MANSON. It does not authorize liquidation.

Mr. COOPER. Is it not specifically provided that the Federal land bank may liquidate?
Mr. MANSON. Yes.

Mr. COOPER. Then, if the Federal land bank may liquidate, why maintain the associations if they have no place to get the money?

Mr. MANSON. They must be maintained until they have been released of their liability. Now, if the liquidation of the Federal land bank—I have not given that particular question consideration—but it is manifest that if the liquidation of the Federal land bank resulted in liquidating the liability of the association, that the association itself, in the absence of the provision you have just read, might go into liquidation.

Mr. COOPER. Do you understand any reason for putting in the provision that the association may not liquidate without the consent of the Farm Loan Board unless the Congress assumed that might be done?

Mr. MANSON. Yes; because any corporation may liquidate provided they take care of their liabilities.

Mr. COOPER. Yes.
Mr. MANSON. Now, then, a corporation can not escape a contingent liability by going into liquidation.

Mr. WINGO. It might be interesting to suggest this, that that very question was raised in the beginning, and this theory was offered, that if all paid off, they liquidated; nothing but bookkeeping was left; on the other hand, if they did not do that there should not be any liquidation because that would be a release of liability.

Mr. STEVENSON. A destruction of liability.
Mr. WINGO. Yes; your contention is that this provision was put in there with the purpose of getting rid of the association.

Mr. MANSON. Yes.
Mr. WINGO. By offering the inducement to the voluntary liquidation?
Mr. MANSON. Yes.

Mr. WINGO. Your position is that if the association did not insist upon the liquidation after the passage of the act—

Mr. MANSON. Yes.
Mr. WINGO. Congress reserved the right to amend this, didn't it?
Mr. MANSON. Yes; but that does not carry with it the right to divest a vested property right.

Mr. WINGO. I have never yet thought much of the theory that Congress might legislate against a lawsuit. If we hesitated in enacting laws with reference to established agencies in business because there might be a lawsuit I do not think we would legislate at all.

Mr. MANSON. My suggestion is this: The conception has grown up—what the foundation is, I do not know—that this is a Government institution.

Mr. WINGO. The supreme court says it is; says it is an agent of the Government.

Mr. MANSON. It said that also of the joint stock land bank. I would like to call your attention—in that case the joint stock land bank was involved; it was not the Federal land bank.

Mr. WINGO. It is a governmental agency.

Mr. MANSON. Oh, yes.

Mr. WINGO. An instrument of the Government like a national bank; the supreme court did say, did give the Federal land bank practically the same status a national bank has.

Mr. MANSON. That is it.

Mr. WINGO. Because the only question involved was "Is it an instrumentality of government." They did not undertake to say that this is a part of the Government like the Interior Department; they gave it the status that the national bank has. It is an instrument of Government; you can understand that we exercised a good deal of care in shaping that section that it should act as an agency; it was facetiously suggested that that was only a peg on which to hang the coat of tax exemption, etc.

Mr. MANSON. I have prepared a memorandum in which I have made a careful analysis of what I consider to be the effects of this bill. I have expressed my views on the bill in a much more connected logical and brief way than I could possibly in an oral presentation, and I would like to offer it for incorporation into the record for the benefit of the other members of the committee.

Mr. Appleby. Is there any objection?

Mr. WINGO. I think it ought to go in.

MEMORANDUM ON H. R. 13047, H. R. 13125, INTRODUCED BY MR. STRONG OF KANSAS, AND S. 4130, INTRODUCED BY SENATOR NORBECK OF SOUTH DAKOTA, TO AMEND THE FEDERAL FARM LOAN ACT.

These bills are practically identical. In effect they are identical. If their purpose is to be judged by their effect, it is to wipe out the Federal farm-loan system, as established under the Federal farm-loan act, and to create an entirely different system, based upon entirely different principles.

The enactment of any of these bills will defeat the whole purpose of the original Federal farm-loan act. If enacted, the effect of any of these bills will be:

1. To establish permanent political management of the cooperatively owned Federal land banks.
2. To reduce the security behind Federal land-bank bonds by substituting unindorsed loans, to be made through agents, for loans made through and indorsed by cooperative farm-loan association.
3. To eliminate the national farm-loan associations as the cooperative unit of the Federal farm-loan system.
4. To deprive the Federal land banks of the authority to issue and sell bonds.
5. To relieve the Farm Loan Board of congressional regulation of its expenses and Government audit of its expenditures, and to give it unlimited power to tax the banks in the Federal farm-loan system.

POLITICAL INSTEAD OF COOPERATIVE MANAGEMENT.

By providing for the substitution of permanent political control of the Federal land banks for the cooperative control provided for in the original act, and by providing for the substitution of appointed agents of the banks in the place of the cooperative farm-loan associations, these bills defeat the very purpose of requiring the borrowers to furnish the capital and to bear the risks of loss of the Federal land-bank system.

FINANCIAL INDEPENDENCE OBJECT OF COOPERATIVE OWNERSHIP AND RISK.

The primary purpose of establishing the cooperative branch of the farm-loan system was to emancipate agriculture from dependence upon other interests for the means of reaching the money market for long-term loans. It was intended to give the farmers the same financial independence that was enjoyed by the municipalities, railroads, public utilities, and the large industrial and commercial corporations.

Their loans run into the millions, while the individual farmer is the borrower of but a few thousand at the most. To place the farmer on an equal footing with these big borrowers, it was necessary to supply the financial machinery for converting farm mortgages into liquid negotiable bonds, for marketing such bonds, and for distributing the proceeds as loans. To enjoy the independence of outside influence and interference, possessed by his competitors for money, and necessary to him to enable him to compete freely, it is absolutely essential that he have the same complete control of the management of his financial machinery as is possessed by them. To have this control, he must own his financial machinery and assume and bear all losses incident to its operation.

To accomplish these purposes, and in accordance with these principles, the national farm loan associations and the Federal land banks were established as purely cooperative institutions. They are cooperatively owned by the farmer borrowers. This cooperative ownership was required by the farm loan act that their management might be cooperatively controlled by directors elected by the borrowers, free of outside influence or interference. This is provided for by that act.

This act was intended to relieve the farmer of the necessity of begging for a loan. It was intended to enable him to borrow through cooperation with his neighbors. These cooperative institutions were intended to be the means of bringing the farmer borrower and the ultimate investor together. Through the control of these institutions, they were to be able to go into the money market and sell bonds whenever and to such extent as their needs demanded, as freely as a railroad, a city, or a public utility, without asking the permission of anyone.

FARMERS TO BEAR THE BURDENS BUT TO BE DENIED THE BENEFITS OF COOPERATION.

If any of these bills be enacted, the farmer borrowers will continue to supply the capital and bear the losses of the banks, but will be denied their inherent rights, as stockholders, to determine when, and to what extent, the system shall function, as well as their right to protect themselves against loss, and to protect their interest in any profits which may be earned.

The primary purpose of requiring the farmer borrowers to furnish the capital for the banks—the right to have complete control of the management of their own financial machinery—will be utterly defeated.

FAILURE OF SYSTEM TO FUNCTION DURING 1921 DUE TO POLITICAL MANAGEMENT.

The failure of the Federal land banks to supply 25 per cent of the demand for loans during 1921 was due entirely to the political management these bills propose to perpetuate. Had the directors of the banks been elected by the associations, they would have been responsive to the farmers' demand and urgent need for money during that period. It was not until after the associations had conducted a fight for months, and finally appealed to Congress, that the Farm Loan Board permitted its appointees to issue bonds in anywhere near an adequate amount.

If any of these bills becomes a law, the conditions existing in 1921 may recur at any time, and the farmers will not even have the associations through which to register their protest.

AGENTS OF BANKS INSTEAD OF FARM LOAN ASSOCIATIONS.

These bills provide for the appointment by the banks of agents through whom loans can be made. The adoption of this plan will finally result in the entire elimination of the farm loan association as the medium through which the borrower does business with the bank. The association is a local cooperative institution locally controlled. It has a local check on loans made, and is the borrower-stockholder's source of information and means of expressing his voice in the operation of the system.

The substitution of agents of the banks for the associations means that instead of the farmer having a representative of his own, he must do business with a representative of the bank. When this change is made there will be no one under local control, and responsible to local farmers, who will have any special interest in the system. Being interested only in his commission, it will be to the agent's advantage to give the big borrower the preference over the small one. Thus cooperative control of the banks is not only to be eliminated, but the local cooperative organization is to be done away with entirely.

DIRECT LOANS WITHOUT INDORSEMENT.

By authorizing unindorsed loans to be made direct by the banks, instead of loans made through, and indorsed by the farm loan associations, the whole plan of doing business is changed. The risk of the bank is increased. The risk of the associations as stockholders is increased. The security behind the bonds is decreased. The present market for Federal land bank bonds will be destroyed. The interest rates to the borrower will be increased and his dividends reduced.

A market has been created for Federal land bank bonds backed by indorsed loans. Every bond house handling these bonds, and most of the investors, know that, under the present system, if a default occurs, the farm loan association through which the loan was made must meet the payment. Under the present system the danger of a loss to the bank is remote. The bond buyer knows that he will get his interest when it is due and his principal when his bond matures.

Under the method provided by these bills all defaults on direct loans will fall upon the banks. The bank assumes an entirely different liability and its bonds constitute an entirely different kind of security. A new market must be created for this new security. Federal land bank bonds are now selling as fast as offered at constantly decreasing rates of interest. Why destroy the present market for the present security, by substituting something else that will require higher interest?

ELIMINATION OF ASSOCIATIONS.

As stockholders of the banks, the associations will bear their proportion of the losses due to defaults on direct loans, in addition to their losses upon their own indorsements. This will drive them to escape their liability as indorsers by liquidating, which is authorized by these bills. Thus the associations will be entirely eliminated.

BOND ISSUES.

The authority to issue and sell bonds is, by the provisions of these bills, transferred from the Federal land banks to a central Federal land bank.

COOPERATION COMPLETELY DESTROYED.

Thus the whole cooperative machinery created by the farm loan act is to be scrapped. Instead of loans made through and indorsed by local cooperative associations, and converted into bonds and sold by cooperatively controlled banks, we will have a political system, owned by the farmers, but managed by political appointees from top to bottom.

THE FEDERAL FARM LOAN SYSTEM.

The Federal farm loan system consists of two sets of financial institutions, the Federal land bank branch and the joint-stock land bank branch.

Both branches of the system were intended to accomplish the same general purpose, to convert farm mortgages into liquid negotiable bonds which would meet with ready sale at low rates of interest, and to loan the money, thus obtained, to farmers on the long term amortization plan, at rates of interest limited by Congress. That these bonds might be sold, and this money loaned at the lowest possible interest rates, these bonds were made tax exempt.

The essential difference between the two branches of the system lies in the fact that the Federal land bank branch is cooperatively owned and the liability for loss is cooperatively borne by the borrowers in proportion to the amount of their respective loans; while in the joint-stock land bank branch the stockholders may be, but need not be, and in fact seldom are borrowers.

The original farm loan act recognized the fundamental principle that he who furnishes the capital and bears the risk of loss is entitled to the profits, if any, and the right to manage to protect himself against loss and earn a profit if he can. This principle has been applied to the joint-stock land banks, but, as will be hereinafter shown, it has not been applied to the Federal land banks, and if any of these bills be enacted, it never will be.

The farm loan act created the Federal Farm Loan Board, not to manage the banks in either branch of the system, but to exercise such supervision as would insure the observance of the act by both branches.

REASON FOR TWO BRANCHES.

When the agitation for a system for financing long term farm loans started, Congress recognized the need but had no plan with which to meet it. It was known that in Europe a system had been in successful operation for 150 years. A commission was created to go to Europe and investigate the system in practice and the experience under it. This commission found both cooperative and privately owned or joint-stock systems in operation in the principal European countries and reported on the practice and experience under both.

During the investigations and discussions which led up to the framing of the farm loan act, and during the consideration of that measure by the committees of Congress and on the floors of both Houses, both cooperative and privately owned systems were advocated.

The advocates of cooperation contended that the farmers should own and control the machinery, by the use of which they could enter the money market, and dispose of their securities, when, and in such amounts as their needs demanded, and at such price as their security merited, without asking the permission of, or paying a toll of profit, to outside capital. It was also urged that only through cooperation could agriculture hope to get its proper return for agricultural investment and effort; that this plan could be applied to financing the farm investment as well as to the marketing of farm products and the purchasing of farm requirements; and that the experience gained through cooperative farm financing would aid in the solution of other farm economic problems. The soundness of these propositions could not be disputed, and the establishment of the Federal Land Banks as the cooperative branch of the farm loan system was the result.

It was realized by the students of this subject and by Congress that the farmers of this country had not fully grasped the idea of cooperation, as a solution of their problems. It was then and is still necessary to educate the American farmer as to both the advantage and necessity for cooperation as the remedy for many of his problems. Because of this situation, it was realized that many farmers, requiring the aid of the system to be established, would hesitate to join a cooperative institution, invest their proportionate share of the capital and assume the risk involved. Many persons prefer to get the full amount of their loans, and pay a fixed and definite rate of interest, with no chance of rebate in the shape of dividends, to assuming a possible liability of loss in addition to the repayment of their loan. Again there are farmers desiring and de-

serving loans who might not be acceptable to the members of a cooperative organization.

The primary purpose of the farm loan act was to provide the means for securing an adequate supply of money for agriculture. It was recognized that the investing public had to be educated to buy the bonds of a cooperative institution. This has been done to a most gratifying extent, but, because of a failure to understand what cooperation means, there are doubtless even to-day many investors who are skeptical of the bonds of a cooperative institution.

In order to provide for those borrowers who might not desire to cooperate, and in order to bring to the relief of agriculture the money of those investors who would not invest in the securities of cooperative banks, the joint stock land banks were created as another branch of the Federal farm loan system.

In establishing this dual system Congress followed the example of European countries where cooperative farm finance has had over 150 years of successful experience. There it was found that both kind of institutions were necessary to meet the farmers' requirements.

Both sets of banks operate under the same limitations as to the interest rates to be charged to borrowers. The interest to the farmer is limited to a maximum of 1 per cent in addition to the rate paid upon the last preceding bond issue, which shall in no case exceed 6 per cent.

It is now proposed to destroy the essential features of the cooperative branch of the farm loan system, by grafting onto it some of the features of the joint stock land banks, and by permanently preventing cooperative control. It is claimed by those behind this bill that this is necessary to enable the Federal land banks to meet the requirements of all farmers desiring loans and the whims of all investors.

As has been shown, the Federal land bank branch of the system was never expected, nor intended, to meet the demand of any one except those who are willing to cooperate and are acceptable as members of a cooperative enterprise. The joint-stock land bank was intended to take care of those who either would not cooperate or could not get others to cooperate with them.

Within the limitation on the size of the loan which could be made by a Federal land bank, all borrowers were intended to be able to exercise a free choice between these two branches of the system. It may be that some borrowers have preferred to borrow from the cooperative branch, but, not being able to do so, have been forced to patronize a joint-stock land bank in order to secure a loan under the Federal farm loan system. If this be true, and it no doubt is in many cases, it is due to no defect in the cooperative machinery established by Congress in the original farm loan act. It is due to the fact that the political management which has controlled that machinery has not permitted it to function.

The limit on the size of loans which can be made by Federal land banks should be increased. The only thing which has justified this limit has been the policy of the Farm Loan Board in failing to issue sufficient bonds to take care of those desiring loans up to \$10,000. This limitation is no part of the cooperative scheme of the act, and can be increased or abolished without effecting it.

With the exception of this limitation all of the trouble with the cooperative system is due to the way it has been administered and not to faulty design. Instead of destroying the cooperative system by the introduction of joint-stock land bank features, what is required is to place it under cooperative control which will permit it to function to serve the purpose for which it was intended. Before pronouncing cooperation a failure, let us give it a trial.

THE COOPERATIVE SYSTEM.

The cooperative branch of the farm loan system consists of two sets of institutions, the national farm loan associations and the Federal land banks.

The farm loan associations are the cooperative units of the system. When a loan is made the borrower is required to purchase stock in the association in an amount equal to five per cent of the amount of his loan and can purchase no more. The stock of these associations is all held by borrowers and in the same proportion to the amount of their loans.

When a loan is applied for the application is made to the association, the security is appraised by the loan committee of the association, and members are admitted on a two-thirds vote of the directors.

The association forwards the approved application to the Federal land bank for its district. If the loan is made, the association purchases stock of the bank for 5 per cent of the amount of the loan. In practical operation this 5 per cent is deducted by the bank from the amount of the loan, and thus automatically pays for the stock of

the association in the bank and the stock of the borrower in the association. In this way the borrowers own and control the associations and, through the associations, they own the banks.

The directors of the associations are elected by the borrowers in annual meetings, and by the terms of the original act the directors of the associations were to elect six of the nine directors of the banks. Thus the borrowers through these local cooperative units were to control the banks.

The law makes all net earnings of the banks, after providing for reserve, available for dividends. The stock being held in equal proportion to the amount of the loans, the act contemplated that this distribution of the net earnings would offset the interest charged and give the borrower his money at cost.

All loans made through associations are indorsed by them and, in case of default, the association is liable for payments due. The act provides that the secretary-treasurer shall collect the payments due the bank from the borrower.

The Federal land bank deposits the mortgages as security for bond issues which it is authorized to make when it has accumulated mortgages amounting to \$50,000 or more, and loans the money through the association in the manner described.

Under the act the Federal Farm Loan Board is authorized to approve all bond issues. This authority was never intended to extend beyond the power to ascertain whether the mortgages offered constituted adequate legal security for the proposed bond issue.

Thus there was provided the means, to be owned and controlled by the farmers, whereby they could enter the money markets when they chose and borrow money for agricultural purposes in such amounts as the mortgages they had to offer would secure, and at such rates as their security warranted. They were to bear all losses and share all profits. They were to have control over all loans made, first, through their associations, and, second, through directors elected by their associations for the respective banks.

Outside capital was barred from the cooperative branch of the system to insure its independence, that the farmer might own and control the means of financing himself, that outside influence might not interfere with agriculture getting money it requires and its credit deserves.

CONTROL OF BANKS.

The farm loan act provides that the Federal land banks shall be managed by boards of directors consisting of nine members, six of whom shall be elected by, and be representative of, national farm loan associations, and three of whom shall be appointed by the Federal Farm Loan Board.

TEMPORARY CONTROL.

Solely for the purpose of "priming" the system—to get it started—the Government advanced \$8,892,130, by subscribing for the stock of the 12 Federal land banks in that amount. The act provides that when the subscriptions of farm loan associations to the stock of any bank reach \$750,000, 25 per cent of the subsequent subscriptions shall be applied to the retirement of the stock held by the Government.

Solely for the purpose of getting the system into operation, the act provides that the Federal land banks shall be temporarily managed by boards of five directors appointed by the Federal Farm Loan Board. By the terms of the act these "temporary" boards were to be succeeded by the permanent directors when stock in any bank had been subscribed to \$100,000 by farm loan associations.

The borrowers, through farm loan associations, now own and hold \$30,866,995, of the capital stock of the Federal land banks. The Government's subscription has been reduced to \$4,264,880. The balance of the Government stock will soon be retired and the borrowers will own all of the stock.

The respective stock holdings of the Government and the National Farm Loan Associations in several of the banks are as follows:

Federal land bank.	Stock held by Government.	Stock held by National Farm Loan Associations.
St. Paul.....	\$130,965	\$3,396,355
Omaha.....	44,740	3,638,735
Houston.....	177,885	3,332,060
Spokane.....	127,080	3,622,910

Notwithstanding the fact that the borrowers own 87.5 per cent of the stock, are liable for all the losses, and the whole system was designed to make agriculture independent of all outside influence, the borrowers have, so far, had no voice in the management of the banks.

FARM LOAN BOARD OPPOSES COOPERATION.

The farm loan system had hardly begun to operate when its Federal Farm Loan Board began its attack upon its cooperative features.

In the First Annual Report of the Federal Farm Loan Board the following statement appears:

"It is doubtful if the direct management and control of any bank which is dependent upon borrowed capital for its control and operation can be safely delegated to the borrowers from such bank. An amendment to the act, providing for a lengthened period of governmental control, has therefore been prepared and is respectfully submitted for the consideration of the Congress."

The foregoing extract from the report of the board demonstrates conclusively that they do not believe in the cooperative system established by Congress, and that they do not consider the farmers of the country competent to select the directors in the banks in which they own the stock and for the liabilities of which they stand a double liability. The cooperative features of this law were borrowed from Europe, where, for 150 years, they had proven a success. They were adopted upon the recommendations of a Government commission, which went to Europe for the purpose of making an exhaustive investigation of rural credits.

On December 31, 1917, the stock of eight of the banks had been subscribed to the required amount by the associations. Notwithstanding the plain provisions of the act, no steps were taken by the farm loan commissioner to enable the associations holding stock in these eight banks to exercise their right to elect directors.

On January, 1918, Congress, at the instance of the Farm Loan Board, enacted the amendment suggested by the board and referred to in the report above quoted. The purpose and effect of this amendment was carefully concealed. On its face, it does not appear to destroy the cooperative features of the law, and to transfer, from the stockholders to political appointees, the management and control of these banks. Such, however, is its effect. As the above quotation from the first report of the board shows, such was intended to be its effect.

The amendment authorizes the Secretary of the Treasury to purchase \$200,000,000 of the bonds of Federal land banks, and provides that so long as any of the bonds of any such bank shall be held by the Treasury, the temporary organization of such banks (appointed by the Farm Loan Board) shall continue in power. The amendment "authorizes" the Secretary of the Treasury to require the banks to repurchase any bonds held in the Treasury one year after the termination of the war.

TWENTY YEARS' TEMPORARY CONTROL.

The bonds sold to the Government do not mature for 20 years. The question whether bonds would be sold to the Treasury, and the stockholders thereby deprived of a voice in the bank's affairs, was passed upon by the "temporary" boards. As these boards could perpetuate themselves in office by selling to the Government, it is needless to say, they did so sell. Under this act the Treasury purchased \$186,000,000 of Federal land bank bonds. The question whether these bonds will be repurchased for resale is up to these same "temporary" boards, and, as by buying back the bonds they will be ousting themselves from office, it is needless to say that they will not do so, to the extent necessary to oust them from their jobs.

In May, 1922, an offering of \$75,000,000 of Federal Land Bank bonds was oversubscribed \$42,500,000 before the books could be closed. The proceeds of this oversubscription were used to retire that amount of bonds held by the Treasury. In September, 1922, an offering of \$75,000,000 was oversubscribed \$23,500,000 which will probably be used to retire bonds in the Treasury. This will leave \$120,000,000 in the Treasury. As a bank can not be forced to rebuy a bond when it has no money available, the power given to the Secretary of the Treasury to require the repurchase is meaningless.

Thus, under the guise of giving security for a loan, the Federal Farm Loan Board secured action by Congress, the effect of which was to change the whole system, for a period of twenty years, from a cooperative to political control.

It can not be believed that, had Congress realized the purpose and effect of this amendment, it would have been enacted. The subject of farm finance had been under discussion for years before this act was passed, but no one ever suggested a

bank, the stock of which should be bought and paid for by private individuals, but the management of which would be in political appointees.

This amendment was, furthermore, a fraud upon those who had bought and paid for their stock under a law which gave them the right to elect the directors, and then deprived them of that right without receiving back their money, or being released from their liability as stockholders.

Furthermore, it was not until July, 1920, that the board notified the associations of this change in the law. After this amendment had been adopted, they continued to send out to the associations, copies of the original act without the amendment, and the association continued to subscribe for stock in the banks believing that the law had not been changed.

PROPOSE PERMANENT POLITICAL CONTROL.

The Farm Loan Board, in its fifth annual report, recommended permanent organizations for the Federal land banks, to consist of seven directors, four to be chosen by the Farm Loan Board and three to be chosen by the farm loan associations, who may attend meetings and watch the four appointees run the banks.

When the associations were informed of this recommendation they entered a most vigorous protest. Senator Fletcher alone received over 600 letters from farm loan associations protesting against this and other recommendations contained in the report and incorporated in these bills.

Section 2 of the Strong bills (H. R. 13047 and H. R. 13125) provides for the permanent organization of the Federal land banks with boards of directors to consist of seven members, three to be appointed by the Farm Loan Board, three to be elected by the associations and direct borrowers, and the seventh to be chosen by the six so selected. In case of a tie, the seventh member is to be appointed by the farm loan commissioner.

Any one at all familiar with the way the farm loan act has been administered can readily understand how this method of selecting directors would work out. The Farm Loan Board would appoint its three members and instruct them who to vote for the seventh member. If the three members elected by the stockholders united on any one else there would be a tie. The farm loan commissioner would then appoint the seventh, giving the board four members to the stockholders' three. This bill would accomplish the same result as giving the board the power to appoint the four members, except they would be compelled to go one extra step to get there. The directors elected by the associations would soon learn this and would be likely to take the position that they might as well vote for whoever the appointed directors nominate, because he will be appointed anyway.

Section 2 of the Norbeck bill (S. 4130) is the same as the Strong bills, except that it leaves out the seventh director entirely. This would give an evenly divided board of six members, three selected by and answerable to the Farm Loan Board and three selected by and answerable to the stockholders. Any conflicts between the wishes or views of the associations and the wishes or views of the Farm Loan Board would result in a tie with no one to settle it.

It takes a majority to get affirmative action. The trouble with the present political management has not been in faulty action, but in nonaction. They have failed to issue bonds when the farmers were suffering for the money and the investors were clamoring for the bonds. They have been slow in acting on applications. They have failed to distribute the profits as dividends to anywhere near the extent the net earnings have warranted. This has resulted in the farmers being denied the relief the cooperative system was intended to afford them when they required it. They have been compelled to renew their loans from farm mortgage bankers at high rates of interest and pay exorbitant commissions, unless they could secure loans from the joint stock land banks.

The one thing necessary to enable the cooperative branch of the farm loan system to function is the control of the boards of directors of the Federal land banks by a majority chosen by and responsible to the local cooperative units, which own the banks, know what the demand is for money, are responsible for the losses and entitled to the profits. It takes affirmative action by a majority vote to relieve this situation. Nothing can be accomplished by boards evenly divided between the settled policy of delay and the desire to act.

RESULTS UNDER POLITICAL MANAGEMENT.

Much is being said about the vast amount of money which has gone to the relief of agriculture through the Federal land banks and the great benefit they have been to the farmers. All this is true. The fact remains that the Federal land banks have come no where near meeting the demand upon them since the conclusion of the

litigation, involving the constitutionality of the Farm Loan Act. This fact is due to no defect in the machinery, provided by Congress. Neither is it due to the fact that the investing public would not buy the bonds in greater quantities. The trouble has been administrative solely.

During the year ending November 30, 1921, applications for loans amounting to \$296,859,381 were approved by farm loan associations and forwarded to the 12 Federal land banks. During this time but \$100,000,000 of bonds were offered for sale and but \$73,238,626 of loans were made. At the end of this period associations in every district except the first were being denied the right to make application for loans and the only applications being considered were to refund existing mortgages falling due. Senators and Members of Congress from agricultural sections were receiving complaints from farmers that they could not secure loans and these complaints were taken up with the Farm Loan Board. In reply to these complaints, Farm Loan Commissioner Lobdell wrote Senator Kenyon a letter which appears in the Congressional Record of October 20, 1921, pages 7275 and 7276. In this letter Judge Lobdell takes the position that in spite of the fact that but 25 per cent of the applications made during the year had been met, "the banks were functioning normally." He goes on to say that the capacity of the banks to make loans is subject to limitations which he fixes at from \$150,000,000 to \$200,000,000 a year. He says that it is physically impossible for the banks to safely handle more business than this. The fact that during the month of March, 1922, the Omaha bank actually closed loans amounting to more than \$3,000,000 and in April the Columbia bank exceeded \$2,843,000, which is at the rate of over \$400,000,000 a year for the 12 banks, shows that Judge Lobdell either did not know what he was talking about, or was trying to mislead a Senator who was endeavoring to punch up the banks. This system was intended to meet the demand upon it. There is no limitation on the amount of help which may be employed, and the idea that there is a physical limit on the capacity of the banks is preposterous. If there is such limit the actual accomplishments of some of the banks has proven it to be at least twice what the head of the political managers claimed it to be. It is submitted that this system, to succeed, must be taken out of hands which entertains such narrow ideas of its capacity for usefulness.

The second excuse offered in this letter by Judge Lobdell for the failure of the Federal land banks to meet the demand upon them, was the assertion that the market would not absorb the bonds in excess of \$150,000,000 a year.

Recourse to any financial paper will disclose the fact that there is no open and closed season on bonds. While the market is sometimes better than at other times, investors are buying bonds every business day in the year. When an investor has money idle he is anxious to get it to work drawing interest, and buys what he considers the best thing available at the time. It necessarily follows that the capacity of the market to absorb any particular type of bond can not be ascertained unless those bonds are always available for purchase. It is also obvious that if at any time Federal land bank bonds are not available, the investors having money to invest during that time will buy something else and that money is lost to agriculture.

Now let us review the effort of the political managers of the cooperative branch of the farm loan system to procure money for the farmers during 1921.

The litigation involving the validity of the law was disposed of on February 28, 1921. It was not until the 1st of May, or two months after this case was disposed of, that a single bond was placed on the market, and it was the 1st of June before the banks resumed loaning operations. After the system had been tied up for 18 months by this suit, the political managers permitted three more months to elapse before the system began to afford relief to the farmers. Furthermore this three months was during the period when mortgages were maturing most actively and there was the greatest need for money.

The excuse offered for this delay is that this time was required to engrave the plates, ship the bonds to the banks for signature, and get these back. It does seem that somebody in an office like the Farm Loan Board should have known that it is the usual and customary business practice under such conditions to issue interim certificates which can be exchanged for the engraved bonds when they are ready. This is the practice followed by some of the joint stock land banks and by most corporations issuing bonds.

If they did not know of this means of obviating delay, what claim have they to be considered competent in any respect? Upon what do they base their claim to a business acumen superior to that which may be possessed by directors who may be elected by the associations? If they did know of this practice, the sooner the system is placed under the management of directors who will have at least the disposition and desire to make it function the better it will be for everybody. All of these politicians had been in office, drawing their salaries during the entire time this litigation

was pending. What were they doing? Why were they not ready to offer bonds for sale on the day the case was decided? Did they expect the law to be declared invalid? If so, why did they hold on and draw their salaries?

From the time this May issue of \$40,000,000 was disposed of in June until October not a Federal land bank had a bond on the market. That there was a market ready and willing to absorb Federal land bank bonds, is shown by the fact that during all this time Federal land bank bonds, offered by private holders, were sold at a premium.

On October 6, 1921, an offering of \$60,000,000 was made and this was closed out on the 29th of October. From the latter date until the 3d of February, 1922, there was not a bond offered on the market by a Federal land bank. During all of this time the bonds in the hands of investors were selling at 103 or better. During this period farm loan associations were being denied the right to apply for loans because the banks had no money; and investors, applying at the banks for bonds, were informed that there were none for sale.

On February 3, 1922, an offering of \$75,000,000 was closed out in three hours at a premium of 2½.

During the months of November and December, 1921, and January, 1922, there was as good, if not a better, bond market than in February when \$75,000,000 were sold in three hours. During these months the amount of new issues of securities absorbed through the New York market was as follows:

November, 1921.....	\$368, 169, 341
December, 1921.....	551, 576, 349
January, 1922.....	446, 000, 485
February, 1922.....	360, 898, 974

These figures show that during the three months when there were no new Federal land bank bonds on the market there was actually more money on the market for investment and more money actually invested than in February, when \$75,000,000 was gobbled up in three hours.

I believe that these facts warrant the charge that the reason that farmers were unable to secure the loans they desired and the associations were denied the privilege of applying for loans was not because investors would not furnish the money but because the Farm Loan Board and its political appointees would not offer the bonds for sale.

The proceeds of the February, 1922, bond sale were nowhere near adequate to meet the demand on the banks for loans. Despite the fact that the privilege of making application for loans had been shut off for months, there were on file with the banks on January 31, 1922, applications for \$142,063,816. Of this amount less than 33 per cent could be met out of the proceeds of the February sale.

In October, 1921, the Federation of National Farm Loan Associations, started an aggressive campaign for more money through the Federal land banks. The associations were informed of the real situation and complained to Members of Congress and Senators. In April the whole situation was laid before a subcommittee of the Senate Committee on Banking and Currency. The Farm Loan Board was called upon to meet these charges. Two members of the board appeared before the committee, admitted the bonds could be sold if offered for sale, and assured the committee that this would be done.

Since this time \$150,000,000 of bonds have been sold and no present shortage of funds is apparent. What has occurred in the past may be repeated in the future. My purpose in reviewing this situation is to point to it as an illustration of the evil result of placing this great cooperatively owned financial system under the management of political appointees. Had these banks been managed by directors elected by and responsible to the local associations they would have been responsive to the demand of the farmers, through the associations, for money. Instead of perpetuating the power which has prevented this system giving agriculture the relief it could and should have given, when it was most needed, prompt action should be taken to give the stockholders the right to elect a majority of the directors, and to confine the Farm Loan Board to the same legitimate supervision which they now exercise over the Joint Stock Land Banks, as was contemplated by the original Farm Loan Act.

WHY SHOULD COOPERATIVE OWNERS BE DENIED CONTROL OF THEIR OWN PROPERTY?

Why should the farmers, whose capital is invested, who are liable for the losses and entitled to the profits of these banks, be denied the right to manage their own property? To no other class, except tribal Indians, is this right denied. Are the farmers of this country to be so classified?

To do so is to defeat the very purpose for which the Federal land banks were created as a cooperative institution. The very purpose of the cooperative branch, the very purpose of requiring the borrower to furnish the basic capital and assume the risk of loss was that this system might be the farmer's independent means of financing himself. To make him independent of outside capital but entirely dependent upon four political officeholders is jumping out of the frying pan into the fire.

Outside capitalists have at least demonstrated their ability to handle capital, or they would not have it. Is there any way of guaranteeing this capacity in men who can bring sufficient political influence to bear to land them on the Federal Farm Loan Board or on the board of directors of a Federal land bank?

Outside capital has an interest in its own preservation, while the financial interest of the members of the Farm Loan Board and the officers of these banks is limited to their own handsome salaries.

Is it because there is anything about farming that makes the farmers of this country irresponsible that they must be denied the right to manage their property, or is it because they are borrowers? To borrow money to buy or develop a farm is evidence of initiative, ambition, and progressiveness, and not of improvidence. Without borrowed capital the agricultural resources of this country would soon pass into the hands of tenants and hired help. There is a lower percentage of borrowed capital in agriculture than in any other field of activity. Every business in this country functions to a far greater extent on borrowed capital than agriculture. There are few stockholders in State or National banks who are not borrowers, and to bar borrowers from the directorate of such banks would be to leave their chairs empty. The farmer borrowers from Federal land banks differ from the stockholders of commercial banks. They must have a farm with at least twice the amount of their loans to become borrower stockholders. There is no other bank in which the stock is all held by stockholders who must have visible, tangible property out of which their double liability can be enforced.

Is it because these banks are incorporated under an act of Congress and authorized to issue bonds that the stockholders are denied control? How about the Joint Stock Land Banks? These banks function in the same way, and are created by the same Act. Outside of the original temporary advance by the Government cooperative banks enjoy no privilege not granted to the joint stock land banks, yet the latter exercise the privilege of electing every one of their directors.

National banks do not issue bonds, yet they enjoy the right to receive deposits amounting to many times their paid in capital. They as well as the Federal reserve banks also issue currency, yet the stockholders of the National banks elect all of their directors and the stockholders of the Federal reserve banks elect two-thirds of their directors as it was intended should be the case with the Federal land banks.

Generally speaking there is no corporation in this country which does not enjoy the right to place its securities on the market subject to no restriction other than the approval of some public officer to protect the public against fraud. The exercise of this right has never involved the surrender of the right to manage the property, except in the case of the Federal land bank.

The Federal land bank is unique—in a class all by itself—in that it is the only privately owned politically managed institution outside of Soviet Russia.

REASONS ASSIGNED BY FARM LOAN BOARD FOR POLITICAL MANAGEMENT.

I have made a careful analysis of the various reasons assigned by the Farm Loan Board for their effort to destroy the cooperative system created by Congress in the original farm loan act.

They say that unless political control is continued the public will not buy the bonds, that the bondholder has a greater interest in the system than the stockholder; that the board represents the bondholders, and that permanent management by them or their appointees is necessary for the bondholders' protection.

INTERESTS OF BONDHOLDERS AND STOCKHOLDERS. BONDS PURCHASED UNDER EXISTING LAW.

The board says in its report (p. 8):

"Experience has fully demonstrated that the stability of the Federal farm loan bonds rests very largely, if not almost entirely, upon the close Government control and supervision of the Federal land banks. Deprived of these, the board can but feet that the continued sale of bonds in any considerable volume would be at least very uncertain."

Prior to the enactment of the amendment of January, 1918, and between the first and second Liberty loan issues, "there was no difficulty in marketing nearly

\$30,000,000 farm loan bonds at a substantial premium." (First Annual Report, Federal Farm Loan Board, p. 19.)

The purchasers of these bonds were certainly not relying upon the continuance of the political management of the system because the law then provided for the management of the banks by boards of directors, two-third of whom, were to be elected by farm loan associations, to succeed the temporary boards, as soon as the subscriptions by associations in any bank reached \$100,000. Eight of the banks had reached this point when this report was issued.

The provisions of the act providing for permanent organizations have never been changed. Every bond sold since January, 1918, has been sold under the law providing for boards of directors, to be controlled by those to be elected by the associations, to assume office upon the repurchase of the bonds held by the Government. As this might happen at any time, it can not be said that the bondholders were induced to purchase these bonds, by the fact that the banks were to be managed by political appointees. These bonds sold because they were secured by gilt-edged farm mortgages.

I will go along in all that has been said about the investing public being conservative, cautious, and timid. I know that the part of the investing public which buys bonds will not invest unless satisfied as to the adequacy of the security. That part of the investing public which buys stocks (in ordinary times) often has not so much concern about the safety of the investment, being more keen for large returns. But the bond buyer consults his lawyer, examines the law under which the bonds are issued, inquires as to the stability and the current and prospective condition of the general industry, and asks for reports on the financial responsibility of the particular corporation issuing the bonds.

Frequently I am called upon to advise clients in such matters. Indeed, conducting such inquiries for investors constitutes the major portion of the business of many large and reputable law firms.

Knowing this—and we all know this to be the practice—how can any sane man ask you to believe that the present holders of Federal land bank bonds, which now aggregate more than half a billion, purchased these securities in ignorance of the provisions of the present law?

Every bond that has been issued and every bond that has been sold by the Federal land banks has been issued and sold under a law which provides, always did provide, and still does provide, that these banks shall be owned and managed by the borrowers; that the borrowers shall elect six of the nine directors and that the Government shall appoint only three.

True and amendment was passed that the temporary organization (which means an organization appointed wholly by the Government) of any Federal land bank should continue so long as the United States Treasury holds a bond of the said bank. But the same amendment provides that any Federal land bank held in the Treasury "one year after the termination of the war shall, upon 30 days' notice from the Secretary of the Treasury, be redeemed or repurchased by such bank at par and accrued interest."

No sane man believes that an investor who is so conservative and so cautious and so timid that he would not buy a bond of a bank managed by the borrowers would be so careless and so negligent of his own interests as to depend upon some secret arrangement or understanding between a group of bond houses, of whom he made the purchase, and a politically created administrative board of the Government, the personnel of which may be changed at any time, or which, by act of Congress, may be wiped out of existence, for the continuance of the temporary organization which protects him as an investor against the mismanagement or bad judgment or self-interest of directors representing the borrowers.

The point I would make is this: Either these bonds were purchased freely and gladly for what they are—bonds of a bank to be controlled by the borrowers—or they were sold by the bond houses under fraudulent representations.

Mind you, I am not charging that they were sold under fraudulent representations. I am merely pointing out how ridiculous is the claim that the investing public will not buy these bonds if the borrowers are given control of their own banks, as the law originally and still provides. These securities were not sold on fraudulent representation. They can not be sold on fraudulent representation. The only fraudulent thing about this whole proceeding is the present claim that they can not be sold at all if the borrowers are given their rights. In other words the only fraud I know of in connection with it is the one which the Farm Loan Board is now seeking to perpetrate upon borrowers who own the stock of these banks.

The stock in the Federal land banks is held by national farm loan associations. These were intended to be a permanent part of the system. By taking in new members, from year to year, old maturing stock is constantly being replaced by new subscriptions.

If the board was referring to the stockholder in the farm loan associations, it is safe to say that no present stock holder will have had his stock retired during the incumbency of the present members of the Federal Farm Loan Board. Neither the stock of the borrower in an association, nor the stock of an association in the bank can be sold. The sale of the latter is expressly prohibited by the act, and the sale of the former is prevented by the fact that it must be deposited as collateral security for the loan.

Thus each stockholder, unless he sells his farm, is a stockholder for at least 33 years. It is safe to say that in no other corporation is such permanency assured.

COMPARATIVE INTEREST.

The board says that the purchaser of a \$10,000 bond has an interest equal to twenty times that of a borrower of \$10,000, because the latter only buys \$500 of stock. They overlook the additional liability of \$500 imposed upon the borrower.

But even considering this additional liability, it can not be said that the stockholder have but one-tenth the interest of the bondholders. If each were to share the profits and losses, and secure the return of his principal, in proportion to his contributions to the funds of the bank, the proposition of the board would be sound. Such, however, is not the case. The stockholder assumes the risk of losing his stock, his profit and an additional amount equal to his stock before the bondholders loses even his profit.

On the theory advanced by the board, the Federal Reserve Board should name the majority of the directors of national banks, because the deposits exceed the capital stock.

Because the owner loses everything before a mortgagee loses anything, the bondholders of a corporation are never considered to have such an interest in the mortgaged property as to give them the right to manage, until there has been a default in payment of either the principal or interest of the debt.

BONDHOLDERS FULLY REPRESENTED.

The board claims to represent the bondholders, and therefore should name a majority of the directors of the Federal land banks.

The directors of the Federal land banks have no discretion, not subject to the approval of the Federal Farm Loan Board, over any matter which can adversely affect the interests of the bondholders.

Loans by Federal land banks must be secured by first mortgage on farm lands, and can not exceed 50 per cent of the value of the land mortgaged and 20 per cent of the value of the improvements thereon. (Sec. 12.)

No loan can be made without the approval of appraisers who are appointed by, and are under the direction of, the Federal Farm Loan Board (sec. 10); Federal land banks can not issue bonds without the approval of the Farm Loan Board (sec. 18), nor in excess of 20 times the amount of their capital and surplus (sec. 14); and such bonds shall be issued only upon such mortgages as shall be accepted, for that purpose, by the Federal Farm Loan Board. (Sec. 18.)

In case of default, by any Federal land bank, in the payment of the principal or interest of its bonds, all other Federal land banks are proportionably liable (sec. 21); which liability is to be enforced by the Federal Farm Loan Board. (Sec. 17.)

Twenty-five per cent of the net earnings of Federal land banks shall be carried to a reserve, until such reserve equals 20 per cent of the outstanding capital stock, and thereafter 5 per cent of the net earnings shall be annually carried to such reserve. Whenever any reserve shall be impaired below 20 per cent of the capital, it shall be restored to such amount before any dividends are declared. Such reserves shall be invested as directed by the Federal Farm Loan Board. (Sec. 23.)

All salaries fixed by the directors of Federal land banks are subject to the approval of the Federal Farm Loan Board. (Sec. 4.)

The Federal Farm Loan Board is also authorized "to exercise general supervisory authority over the Federal land banks * * *." (Sec. 17.)

From the above-mentioned provisions of the act it is clear that Congress has specifically given to the Federal Farm Loan Board direct authority over every element which may affect the security of the bondholders.

INTERESTS OF PROSPECTIVE BORROWERS.

The Federal farm loan act makes all charges against borrowers to be made by Federal land banks subject to regulation by the Federal Farm Loan Board. (Secs. 13-9 and 17d.)

The act fixes the maximum interest rates to be charged (sec. 12) and authorizes the Federal Farm Loan Board to review and alter such interest rates. (Sec. 17.)

Thus nothing which can effect the prospective borrower is left to the discretion of the directors of the land banks.

GOVERNMENT AS STOCKHOLDER.

By the provisions of section 5 of the act, when subscriptions by National Farm Loan Associations to the stock of any bank reach \$750,000, 25 per cent of the subsequent subscriptions are to be used to retire the Government's stock. The stock owned by the Government is not entitled to participate in dividends. (Sec. 6.)

Thus no action by the directors can adversely affect the Government as a stockholder.

INTERESTS OF NATIONAL FARM-LOAN ASSOCIATIONS SUBJECT TO CONTROL BY DIRECTORS.

While, as we have already shown, the discretionary powers of the boards of directors of these banks are so limited that neither the interests of the Government as a stockholder or as a bondholder, the interests of any other bondholder, nor the interests of the prospective borrowers can be impaired by their action, yet they are vested with powers, the proper exercise of which, is of vital importance to the national farm-loan associations as stockholders.

NO CONTROL OVER LOANS.

While the directors of a Federal land bank can not prejudice the interests of bondholders by making loans without the approval of the Farm Loan Board, the national farm loan associations, as stockholders, have no protection, to-day, against the making of loans by the appointees of the Farm Loan Board, which meet with the approval of that board, but which do not meet with the approval of the farm loan associations.

LOSSES REDUCE DIVIDENDS.

Losses are chargeable, first, against reserves set aside out of net earnings, and these reserves must be made good before net earnings are available for dividends. (Sec. 23.) As the farm loan associations own practically all of the dividend earning stock, they are the ones primarily interested in preventing losses.

LOSSES FALL ON ASSOCIATION STOCKHOLDERS.

The stock of the Government is to be retired at par out of the proceeds of subscriptions by farm loan associations. Thus any losses, which can not be met out of reserves and earnings, fall upon the farm loan associations as stockholders. Their entire investment is wiped out before either the Government or a bondholder can lose a cent, yet they are deprived of any voice in the management of this property.

DIRECTORS DETERMINE DIVIDEND RATE.

As the owners of practically all of the dividend earning stock, the national farm loan associations are solely interested in the extent to which net earnings, available for dividends, shall be distributed as such. This is a matter of more vital importance to these stockholders than to the stockholders in any ordinary business corporation.

In an ordinary business corporation any surplus accumulated enhances the value of the stock, and the stockholder receives the benefit of such undivided surplus upon the sale of the stock. The stock of national farm loan associations can neither be sold nor hypothecated. (Sec. 5.) This stock may, in the discretion of the directors of the bank, and with the approval of the Farm Loan Board, be paid off at par and retired at any time, and must be paid off at par, upon the repayment of the loan, in connection with which it was subscribed. (Sec. 7.) Thus the right of the stockholders to their proportionate share of the undivided profits of the bank, may be forfeited by action of the directors of the bank and are forfeited unless such profits are divided as dividends before the stock is retired.

The aggregate dividends paid by all the Federal land banks to October 31, 1922, were \$4,022,141.74, and the undivided profits still held by the banks on that date in addition to surplus and reserve were \$4,470,878.40.

Thus the banks are holding a sum, available for dividends, which exceeds all dividends paid. If the cooperative spirit of the law is to be carried out, this fund should be distributed among those who have contributed to it in like proportion to their contributions. That the profits of the banks should be distributed among the

borrowers and thus give them their money at cost is implied in the contract between the borrowers and the banks, and is the very purpose of requiring them to subscribe to the capital and assume the liability for losses of the banks. No one has any legitimate claim upon this fund except the stockholder, yet their rights to it are subject to forfeiture unless a majority of the directors protect their interest in it.

It is claimed by the political management that the withholding of these undivided profits from the borrowers is necessary to insure the prompt payment of the principal and interest of the bonds when due. If the scheme of making direct loans without indorsement and by eliminating the association indorsement by permitting the associations to liquidate as provided in these three bills be adopted, there is some foundation for this position, but under existing conditions when all defaults fall back on the associations to meet as indorsers, there is no justification for withholding over half of the net profits.

The law should be so amended as to divide the borrowers into classes, and pay to each class, upon the retirement of their stock, all accrued earnings upon their stock which have not been distributed as dividends. Until their rights to the undivided profits are so protected, and so long as such rights are subject to forfeiture by action of the directors, if these cooperative owners are to enjoy the fruits of cooperation they must have a majority of the directors.

DIRECTORS INITIATE BOND ISSUES.

While no bonds can be issued without the approval of the Farm Loan Board, yet none can be issued without the bank applying for that privilege. Whether the business of the bank shall be speeded up and expanded, so as to meet the demands upon it, and do the largest possible business with the least overhead expense, is a matter entirely within the control of the directors of the banks.

The ability to name the personnel of the banks' organization is another factor which has a direct bearing on the percentage of expense to business done.

The policy of the management of the banks with respect to the amount of business to be done and the character of the personnel are the two most important factors affecting dividends.

I believe that the foregoing review of the provisions of the Federal farm loan act warrants the conclusion that Congress has protected the Government against loss as a stockholder by the provisions of the law, and the bondholders by the discretion it has vested in the Federal Farm Loan Board, but has vested in the boards of directors of the Federal land banks most important discretionary powers vitally affecting the property rights and interests of the national farm loan associations as stockholders, which can not be protected unless they be given the right to elect a majority of such directors.

REDUCING NUMBER OF DIRECTORS.

The Strong bill provides for boards of seven directors instead of nine as provided by the original act. The Norbeck bill provides for boards of six directors. The present boards of "temporary" directors consist of five members.

I have already called attention to the letter of Judge Lohdell to Senator Kenyon in which he takes the position that there is a physical limit on the capacity of the banks to do business.

As the banks were manifestly intended to meet the full demand upon them, and as it is within the power of the banks and the board to employ all the help required to accomplish that purpose, this physical limitation was difficult to understand.

In April, 1922, Mr. A. F. Lever, then a member of the Farm Loan Board, appeared before a subcommittee of the Senate Committee on Banking and Currency. He explained that the delay in acting upon the disposing of applications was not due to a lack of help. He attributed it to the fact that the applications must be passed upon by committees of the directors of the bank. (See Report of hearings on S. 620 and S. 2183, Apr. 8 and 15, 1922, p. 47.)

For over a year there has been a general complaint from all parts of the country because of the delay of the banks in acting upon applications. For a long time applications were being held from two to four months before acceptance or rejection. This was a just cause for general dissatisfaction. Farmers would apply for loans a reasonable time before maturing mortgages became due. They would wait until the last minute without making other arrangements for money. When the time for renewal arrived they would be forced to accept any terms offered by private mortgage bankers.

Under these conditions, it does not seem advisable that the number of directors, provided for in the original act, be reduced.

DIVISION OF LAND BANK DISTRICT.

The provision of this bill, authorizing the board, before each election of directors, to divide each land bank district into three districts is a good one. The land bank districts are large. Conditions in different parts of each district vary. It is important that the different sections of the land bank districts be represented by men familiar with local conditions and requirements.

DIRECT LOANS AND LIQUIDATION OF ASSOCIATIONS.

All of these bills provide in section 15 as follows:

"That whenever it shall appear to the Federal Farm Loan Board to be necessary to the proper service of borrowing farmers in any locality said board may, in its discretion, authorize Federal land banks to make loans on farm lands direct to borrowers and to designate local agents to receive such applications and represent the bank in closing such loans." The agents are authorized to collect from the borrower a commission, to be approved by the board, not to exceed 1 per cent. Each direct borrower is to be required to purchase stock in the Federal land bank for an amount equal to 5 per cent of his loan, and the law imposes a double liability for the debts of the bank. Such stock is to carry direct voting power, draw dividends, be subject to retirement and be held by the bank as collateral for the loan the same as stock held by farm loan associations, except that no one person may vote more than twenty shares.

All of these bills authorize farm loan associations to liquidate upon a vote of two thirds of the members, provided they have no debts, and none of its members are delinquent on payments due the bank.

The Strong bill, (H. R. 13125) and the Norbeck bill provide that the stock of the liquidating association in the bank shall be canceled and bank stock shall be issued direct to the borrowers in its place.

INDORSEMENT ELIMINATED.

It will be noted that the provision for direct loans does not require that they be indorsed by anybody. All loans now made are indorsed by either a farm loan association or by the agent through which they are made; and such agent must be a responsible financial institution incorporated under State law.

Does the double liability assumed by direct borrowers on their stock serve the same purpose as the indorsement? It by no means does. Let us consider how the system now operates, and how it will operate if any of these bills be enacted.

Under the present system, if an association member defaults, the bank first looks to the dividends due the association from the bank. In case of direct loans the bank can only have recourse to the dividend on the stock held by the defaulting borrower. This would be but a small fraction of the payment due. In case of a 10 per cent dividend it would only be 5 per cent semiannually or $\frac{1}{4}$ of 1 per cent of the loan, while the semiannual payment in default would be from 3 to $3\frac{1}{4}$ per cent.

Under the present system the bank has the dividend due the association upon stock equal to 5 per cent of the aggregate of the loans of all its members. In most instances this more than covers all defaults, and the payment is carried as paid on the books of the bank.

If the dividends due the association are not sufficient to cover the payments of defaulting members the surplus or undivided profits of the association can next be looked to to meet the default. In case these are not sufficient the association reserve is available. In addition to this is all of the stock held by the association in the bank, and not merely the stock issued upon the loan of the defaulting borrower or borrowers. When these moneys of the association are exhausted, there is the double liability of all the members of the association to be enforced. Thus before a loss falls upon the bank and through it upon the borrowers generally, we have the dividends due the association which endorsed the loan, the undivided profits, surplus, reserve and double liability of the members of that association to be exhausted. Under this system it takes a series of general calamities such as successive crop failures to bring about a loss which will impair the assets of the bank.

Under the plan of direct, unendorsed loans the loss falls immediately upon the bank. The double liability of the defaulting borrower is no additional security because he is liable for the full amount of the loan anyway. The double liability of other direct borrowers cannot be enforced until the assets of the bank have been exhausted. In other words the bank must be insolvent before the double liability of direct borrowers is available. It is then available only for the purpose of protecting the bondholders against loss.

HIGHER INTEREST RATES

The marketability of bonds depends not only on the value of the security but upon the ability of the bank to pay the interest and principal when due.

The mortgaged farms may represent values far in excess of the amount of bonds outstanding, but investors do not want to wait until mortgages are foreclosed to get what is due them. They do not want to go through the endless processes of litigation incident to the liquidation of a bank. If there should at any time be the slightest delay in the payment of the interest on farm loan bonds the market for them would be gone entirely.

The ability of the banks to pay the interest and principal of their bonds promptly when due depends entirely upon their ability to collect the interest and amortization payments promptly. One of the first things an investor looks to is the amount a bank is carrying as delinquent payments. One thing that has made Federal land bank bonds an attractive investment at low rates of interest has been the fact that the banks have been able to pass along these delinquencies to the associations by deducting them from the dividends, and otherwise enforcing the association's liability on the indorsement. All delinquencies on unindorsed direct loans must be carried by the bank itself, and any losses suffered directly affect the assets of the bank.

It is claimed by those who propose this change that whether loans are made through associations or direct to borrowers, the only security is the mortgages and double liability on the stock. This is true. The vast difference between the two methods, however, is that under the present system a large percentage of the dividends paid by the banks are held by the associations as surplus and reserve, available for the payment of delinquencies, and the double liability on the stock is where it can be enforced when the payments are due the bank and before the assets of the bank are affected, while under the proposed system this double liability cannot be enforced until the bank has become insolvent.

Under these conditions it must be apparent to anyone that the enactment of any of these bills authorizing direct unindorsed loans is bound to decrease the marketability of the bonds, increase the interest rate on the bonds, and thus increase the interest rate to the farmers.

As a practical demonstration of the soundness of my position that direct loaning, without indorsement will increase the interest rate I cite the case of the joint stock land banks. Their bonds are secured by the same kind of mortgages, they are subject to the same supervision, their stockholders carry the same double liability and their ratio of capital to outstanding bonds is higher than in the case of the Federal land banks. If the theory of those proposing this legislation is correct, the fact that the joint stock land banks must have \$1 of capital for every \$15 of bonds should make their bonds a better security than the Federal's with only one dollar of capital, and a borrowed dollar at that, for every twenty dollars of bonds. The joint stock land banks' loans are, however, not indorsed. As a result they are now being compelled to pay 5 per cent on their bonds when the market is taking all the Federal land banks bonds it can get at 4 1/2 per cent.

Now that the public has become educated to buy these bonds for what they are, now that a market has been created which is absorbing them as fast as they are offered for sale at a constantly decreasing rate of interest, why tamper with the system and decrease the security? Why destroy the market for bonds backed by indorsed loans when those desiring direct unindorsed loans can secure them from another branch of the system? Why compel those who are willing to cooperate in order that they may secure low rates of interest to pay higher rates because some farmers do not wish to join cooperative organizations?

EFFECT OF DIRECT LOANING ON ASSOCIATIONS.

I have already shown that the losses on direct unindorsed loans fall directly upon the Federal land banks. These losses must be met first out of undivided profits, then out of reserve, then out of capital and finally out of the double liability.

To the extent that these losses are met out of undivided profits, the ability of the bank to pay dividends is decreased. If the reserve is depleted no dividends can be paid until the reserve is restored. Any impairment of capital must be made good by the stockholders. Thus such losses on direct unindorsed loans must be borne by all the stockholders proportionately including the farm loan associations and through them their members. What is the net result?

The losses on loans made through associations are first borne by the associations through which the loans are made. Such losses do not fall upon the banks and through it, upon the general body of its stockholders until the resources of the association, in-

cluding the double liability of its members, have been exhausted. The result is that the associations must meet their own individual losses and in addition thereto bear their proportionate share of the losses on direct loans, while the direct borrowers are not even affected in their dividends on losses through associations until the members of the associations have been compelled to pay their double liability.

What relief is offered the association by these bills? Here is where the nigger comes out of the woodpile. They may liquidate. The injustice that would be done to the associations by making direct unindorsed loans was recognized by those who conceived this plan. The bills afford them a means of escaping it. They can voluntarily pass out of existence.

If any of these bills become a law, any member of an association who would not vote for the liquidation of his association should have his head examined.

If loans are to be made without indorsements upon which the associations, as stockholders in the banks, are to share the losses, and the association members can escape the additional burden of bearing their own losses, as indorsers, by the simple expedient of liquidating and automatically becoming direct unindorsed borrowers, why should they not do so?

For the same reason that the existing associations will doubtless liquidate if any of these bills are passed, new borrowers will choose the direct method of securing loans rather than through an association. What sane man would assume an immediate liability as a stockholder of an indorsing corporation when he can get his loan by merely assuming the remote liability of loss when the bank can no longer meet its obligations.

Whoever conceived the idea of putting into these bills the provision permitting direct borrowers to organize into an association either had small knowledge of the effect of this scheme or a large sense of humor.

The enactment of these provisions means the end of the associations as a part of the Federal land bank system. Soon after he was appointed Judge Loydell stated that, unless the associations were eliminated within a year, he would resign. He has not resigned yet, but these bills evidence the fact that neither has he discontinued his attempt to kill off the associations.

COOPERATIVE PROFITS.

The law requires the banks to set aside 25 per cent of their net earnings as a reserve until such reserve equals 20 per cent of the capital, after which but 5 per cent need go to the reserve. All defaults are to be charged to such reserve. The associations are required to set aside 10 per cent of their net earnings as a reserve until the reserve equals 20 per cent of their capital, after which 2 per cent is required for this purpose. In either case, if the reserve is impaired it must be made good before further dividends can be declared. After providing for these reserves, the law declares that all net earnings are available for dividends.

The law contemplated that through the distribution of such dividends the farmer borrower would get what would amount to a rebate on his interest payments, and thus secure the use of the money borrowed for the actual cost thereof. Notwithstanding this provision of the law, and the further fact that earnings not distributed as dividends are forfeited to the bank upon retirement of stock, the banks have distributed less than half of the combined net earnings, available for that purpose, as dividends.

Under the present system of indorsed loans, with delinquencies being met by the associations, there is no excuse for this withholding of this large percentage of the net earnings. If, however, any of these bills become a law, with no indorser to pass the delinquency on to, the withholding of this enormous fund from the borrowers will not only be justified, but absolutely necessary to the stability of the bank. This will be true because the double liability will no longer be available to save the bank from loss, but will only be available after losses have wrecked the bank by wiping out its reserves, and capital. Under the present system the double liability is to save the bank from loss. Under these bills the double liability is to save the creditors of a wrecked and insolvent bank from loss.

The double liability of the present borrower through an association can be indorsed before the bank suffers a loss to even its net earnings. The double liability of the direct borrower as a stockholder, can not even be resorted to to make good an impaired reserve or depleted capital. It is of no use to the bank, to save its credit. Its only purpose is to protect the bondholders when the assets of the bank are insufficient to meet its liabilities.

Under these conditions it will be necessary to accumulate and hold such a proportion of the net earnings as a protection against loss that the prospect of substantial dividends become remote indeed. Thus we see the end not only of the cooperative units of the system, but of the cooperative sharing of profits as well.

WHY DESTROY ASSOCIATIONS.

For some time there has been a persistent effort to either do away with the farm loan associations entirely, or so hamper their operations that they would die a natural death. I have been able, so far to trace this movement to three sources.

The Farm Loan Board, and particularly Judge Lobdell, the farm loan commissioner, have little use for the associations. I have already quoted from their reports and utterances sufficient to show this. They claim that the association is inefficient.

The manuscript of these very bills was taken to at least one United States Senator by the Washington representative of the American Farm Bureau Federation with the request that he introduce it. Mr. Howard, former president of the Farm Bureau Federation, told me that his objection to the association was that it was hard to find.

About a year ago a committee of the American Bankers Association came to Washington to sponsor a similar movement. At a conference between this committee, Mr. Howard, and myself, both the chairman of the committee and Mr. Howard took the position that the country bank was a more efficient agent for the system than the farm loan association. This committee wanted the banks to get the compensation now going to the secretary-treasurer but did not want them to assume any liability as indorsers.

I told Mr. Howard and this committee what I repeat now to be the fact, that the associations have been so efficient that they have produced twice the business the banks have been able to handle. Because the association is the part of the system the farmer has come into contact with, there has been a tendency to blame it, for the shortage of funds and the interminable delays in acting on applications. These are matters over which the associations have had no control. The responsibility for the shortage of funds and delays is entirely upon the banks and the board.

After a full discussion of the subject the bankers' committee saw that the plan they proposed, which is the same as provided for in these bills, was wholly inconsistent with the cooperative principles upon which the system is based; they abandoned the project.

Many country bankers have done great service for the cooperative branch of the farm loan system. They have organized associations and are to-day acting as secretary-treasurers. Many have opposed the system, but realizing that it is here to stay, now want to "horn in" and "get a rake-off."

NO NECESSITY FOR AGENTS.

The bill authorizes the appointment of agents "whenever it shall appear to the Federal Farm Loan Board to be necessary to the proper service of borrowing farmers."

There are but about 4,400 national farm loan associations, covering practically every nook and corner of the United States. Wherever there are none, one may be organized by any 10 farmers desiring loans aggregating \$20,000. Where none has been organized and it is not likely that one will be organized the law now authorizes loans through agents. The agent, however, must be a financially responsible banking or mortgage corporation or trust company, and it must indorse the loan.

Any farmer desiring to borrow under the cooperative plan now has an opportunity to do so, provided others desire to cooperate with him by admitting him to an already organized association or cooperating in the organization of a new association. If others do not desire to cooperate with him or if he does not desire to go into a cooperative organization, he is in no position to do business with a cooperative institution such as the Federal land banks were designed to be. For this class who either can not, or do not desire to cooperate, the joint stock land bank was created. Each of these institutions has its own separate field. The Federal land banks are a part of a cooperative system of which the farm loan association is the unit. The joint-stock land bank does business through its own agents, its borrowers have no voice in its affairs, they are required to subscribe for no stock and assume no liability other than the repayment of their own individual loans. The principles upon which these two classes of institutions are founded can not be crossed. To try to do so, as this bill does, will produce a hybrid with all of the disadvantages of both systems and the advantages of neither.

THE ASSOCIATION FOUNDATION OF COOPERATIVE SYSTEM.

The farm loan association feature of the system was no experiment. Farmers in Europe had cooperated in this manner for the purpose of securing farm mortgage loans for 150 years before the enactment of our law.

The principle upon which the farm loan association is based is sound. Experience has demonstrated its success. If the farm loan associations have not function as they should have, the trouble is due to the fact that they have been governed and regu-

lated by those who do not understand and stubbornly refuse to recognize cooperative principles.

The farmers in a community know the value of land in that community and in the individual farms better than any imported appraiser. They know each other. They know who is a good farmer and who is a poor one. Who is industrious and who is lazy. Who pays his debts and who beats his creditors. In short, they know not only the value of the security but the moral risk involved in making a loan. As they are assuming a personal obligation up to 10 per cent of their own loans upon each new loan made by their association, they not only have, but are bound to exercise, a better judgment respecting the making of that loan than can possibly be had or exercised by any outsider, or by any agent interested solely in earning a commission.

The officers of the association, being on the ground, are in a position to see that the money loaned is applied to a purpose which will increase the security and not squandered. Under the plan proposed by these bills there will be no one having any interest in what is done with the money once the loan is made.

The original act contemplated that the collection of interest and amortization payments would be made through the association. In this respect the framers of the act recognized what the universal experience in all lines of business had demonstrated to be true, that collections can be made by a local collector far more successfully than by a nonresident. They also recognized that the association, being liable as an indorser, should be able to protect itself by having the power to collect the payments when due. This right to collect has been taken from most if not all the associations. The association indorsement and its liability nevertheless remains. If the bank fails to collect, the association must do so for its own protection. Furthermore, if a farmer defaults the loss falls upon his neighbors and not on outsiders. If his default is justified they have an interest in helping him meet it. If it is not justified his local standing is affected. Under the plan proposed by these bills, the local agent is through when the loan is closed. He suffers no loss if the loan is not repaid and has no interest in its repayment.

The association is the agency through which the borrowers can exercise an intelligent control over the system. It is the instrument through which their voice can be heard with respect to the management of their own property. The directors are elected by the borrowers and it is their special duty to look after the affairs of the association. The secretary-treasurer is the agent of the borrowers. He knows whether the directors of the bank are meeting the demand for loans, whether applications are being acted upon promptly, and whether the borrowers are receiving their fair share of the profits as dividends.

With the associations eliminated these borrowers become direct stockholders, with no one having any special interest and with no one to keep in touch with the system and represent them. The local agent will be the only one in the locality having any special interest in the system, but instead of being elected by and answerable to local stockholders he will be a subordinate of the bank and answerable to it alone.

Some of these secretary-treasurers have shown some independence. They have protested to the banks, to the board, and to Congress because of the inadequate supply of money, and the delay in securing action on applications, and the failure of the banks to distribute the dividends earned. The banks and the board have resented this. They propose to substitute a system of unorganized borrowers with no one to represent them.

Under such a system the voice of the stockholder would be as ineffective as is the voice of a policy holder in one of the large mutual life insurance companies. The Farm Loan Board has opposed every attempt which has been made by the associations to organize that they may be represented before Congress. It has threatened to withhold loans through any association which joined such an organization. The very purpose of this scheme for direct stockholding is to further disorganize the stockholders. The adoption of this plan would completely eliminate co-operation and would create a system, to be financed by the farmer, but to be forever controlled by four political appointees, with no one in a position to even raise his voice with respect to their method of management.

SMALL FARMERS WILL SUFFER.

The proposed agency system will be disastrous to the small farmer desiring a small loan, and to the farmers living in remote places.

The agent is interested only in his commission and in earning it as easily as possible. This commission depends upon the size of the loan. The amount of work the agent must do to earn his money depends upon how near the farms are to his head-quarters and the size of the loans. His first attention will be directed to securing the big loans close at hand. The little fellow and the man at a distance will get his attention

only when he is not more profitably employed looking after big ones. If the amount of money available is limited the little fellows will get nothing. If the number of applications allotted to an agent are limited, as they have been to associations, it will be money in the agent's pocket to devote them to big loans instead of small ones.

Under the present system, the directors of the association, having no financial interest in giving big borrowers the preference, determine who will be admitted to membership in the association.

CORPORATION TO ISSUE AND DEAL IN BONDS.

Section 3 of these bills provides for a corporation to issue and deal in bonds. This provision carries out another recommendation contained in the Fifth Annual Report of the Federal Farm Loan Board. The effect of this provision will be to legalize and perpetuate the practice which has been followed for some time, with results which have been far from satisfactory.

Full and complete authority over its own bond issues is vital to each Federal land bank. Ninety-five per cent of the money it has to loan is derived from bond issues. Any restrictions upon the issuance of bonds are restrictions upon the banks' power to function.

It was the intention of the Farm loan act that the several land banks would each dispose of its own bonds, when and where it could, and if a borrower elected, bonds should be delivered to him instead of cash.

The law contemplated that when a bank had accumulated mortgages amounting \$50,000 or more, it would issue and offer bonds for sale. If the sale of bonds did not produce sufficient money, and a borrower elected, he could take bonds and sell them to his local bank, or to his friends and neighbors. Thus these bonds would always be available for sale, and money would keep coming into the system as fast as the market absorbed them.

Instead of following this practice, the appointees of the Farm Loan Board, as directors of the several banks, delegated to the Farm Loan Board their authority over bond sales. Instead of each bank issuing and selling bonds in accordance with its own needs and requirements, each has been periodically allotted a certain sum. The way this matter has been handled is well illustrated by the disposition of the proceeds of the February, 1922, bond sale shown by the following statement.

The following table shows the amount of applications pending with the 12 Federal land banks January 31, 1922, per statement of Charles E. Loddell, farm loan commissioner, to United States Senate, February 24, 1922; proceeds of \$75,000,000 bond issue of February, 1922, apportioned to each of the said Federal land banks, per letter of A. F. Lever, member of Farm Loan Board, dated April 3, 1922; and per cent of amount of applications covered by amount apportioned.

District.	Applications pending Jan. 31, 1922.	Apportionment of proceeds of February bond issue.	Per cent of applications covered by amount apportioned.
1. Springfield.....	\$2,567,850	\$3,000,000	117
2. Baltimore.....	6,822,571	3,500,000	51
3. Columbia.....	27,588,190	7,250,000	26
4. Louisville.....	10,050,900	7,000,000	70
5. New Orleans.....	11,190,310	7,000,000	63
6. St. Louis.....	16,385,140	7,250,000	44
7. St. Paul.....	6,278,200	7,500,000	119
8. Omaha.....	13,897,175	7,250,000	52
9. Wichita.....	15,495,750	7,250,000	47
10. Houston.....	9,430,760	7,250,000	77
11. Berkeley.....	8,316,700	3,250,000	39
12. Spokane.....	14,115,270	7,500,000	53
Total.....	142,063,816	775,000,000	52.79

It can not be imagined that, had the directors of the Columbia Federal land bank been at liberty to exercise the authority given them by the law, they would have consented to accept 26 per cent of the amount of their pending applications, when the Springfield bank was getting 117 per cent and the St. Paul bank 119 per cent of the amount of their pending applications. In April, 1922, the Columbia bank was not receiving applications for loans and had not permitted applications to be filed since the preceding November.

H. R. 13047 provides that this central bank shall be managed by a board of directors to consist of the members of the Farm Loan Board and the presidents of the several Federal land banks which shall become stockholders in the central bank.

H. R. 13125 and S. 4130 eliminate the members of the Farm Loan Board.

The bill provides that, when the application of any Federal land bank for a bond issue shall have been approved by the Farm Loan Board, the corporation shall be authorized to issue and sell the bonds on behalf of the bank. It will be noted that when the directors of the bank have exercised their discretion as to the necessity for a bond sale, and the board has exercised its discretion, that the central bank is not required to issue the bonds of the bank, it is left to the discretion of the central bank as to whether the bonds shall be issued and sold and the bank given money to loan. If this provision of this bill becomes a law, it will make little difference who selects the directors of the banks, because this central bank will hold the throttle on the activities of all the banks.

Let us assume that all of the Federal land banks become stockholders in the central bank. We will assume that one of the banks has a board of directors who are desirous of furnishing an adequate supply of money to meet the demand of the farmers in its district. The directors of this bank determine to issue bonds for \$5,000,000 and have the mortgages to offer as security. The Farm Loan Board approves the bond issue. After all this is done it is necessary, under the provisions of these bills, to get the further approval of the presidents of six of the other banks before the bonds can be issued.

Thus these bills provide not only for such a disorganization and scattering of the stockholders as to make effective cooperative control impossible, but for such a further concentration of authority over bond issues as to make such control useless even if the stockholders had it.

There is no doubt that a corporation to be controlled by the banks and authorized to buy and sell bonds would be a most useful adjunct to the system. Such an institution could at all times keep the market for bonds stable by buying them on a falling market and selling them on a high market. To give such a corporation any authority over bond issues simply means giving it the power to determine the extent to which each bank can function.

BOARD TO BE EXEMPT FROM APPROPRIATIONS.

The first section of these bills provides that the salaries and expenses of the Federal Farm Loan Board, the registrars, examiners and reviewing appraisers are to be paid by the banks. Estimates are to be prepared by the Farm Loan Board for six months, and the amount assessed against the Federal and joint stock land banks in proportion to their gross assets. "The funds collected pursuant to such assessments shall be deposited with the Treasurer of the United States to the credit of the Federal Farm Loan Board to be disbursed upon proper vouchers in payment of such salaries and expenses."

It will be noted that the money assessed against the banks and paid by them is not paid into the Treasury as public money, and is not subject to appropriation by Congress. The board is made the sole judge of the amount of money it shall spend, and is not to be limited by any appropriation by Congress. If this bill becomes a law this bureau of the Treasury Department will enjoy the distinction of being the only Government office whose expenditures are not subject to congressional control. Furthermore the money it spends not being public money, its expenditures will not be subject to audit by the accounting officers of the Government. The board will thus be free of all check upon either the purpose or amount of its expenditures, and will be permitted to assess the banks in any amount it sees fit, and accountable to nobody for what it does with the money.

On the basis stipulated in the bill, the gross assets, the Federal land banks will bear about 75.6 per cent of the expense. As these are designed to be cooperative institutions in which the borrowers share the net profits, this expense becomes a charge upon the borrowers. The legitimate functions of this board with respect to the banks under its supervision are similar to the functions of the Comptroller of Currency with respect to national banks. It is difficult to understand why the Federal Government should bear the expense of the office of the Comptroller of the Currency, while these cooperative institutions should be made to bear the expense of similar Government supervision over them.

CONCLUSION.

The general effect of this bill will be to give to four men appointed by the President complete and unlimited power over the entire Federal Land Bank System, with no one except them, having any effective voice any place along the line. The farm loan association will disappear. The agents of the banks will be the creatures of the banks. The directors of the banks will be the creatures of the board. The board will

possess a power such as is possessed by no man or group of men, either in public or private life outside of Soviet Russia. By withholding relief it has already succeeded in intimidating the independent farm loan associations to a very large extent. Its dictatorship over the system will be all the greater when it does business through a system of agents selected by its creatures in control of the banks, instead of through the officers of farm loan associations selected by the associations. The bill provides for the only other thing that is necessary to make the Farm Loan Board the supreme dictators of this system, it makes it independent of Congress for its subsistence. If this bill becomes a law, the Farm Loan Board will be appointing the President instead of the President appointing the Farm Loan Board.

The only commendable things in any of these bills are the provisions for separating Federal land bank districts into divisions for the purpose of choosing directors, and the provision increasing the limit of the amount of Federal Land Bank loans. This latter provision should be made the subject of a separate bill as it has no relation to the general subject-matter of these bills, and was included in them merely as a bait for support.

Respectfully submitted.

LESTER C. MANSON,

Attorney for Federation of National Farm Loan Associations.

Mr. MANSON. There are many misconceptions. I can not help but believe that when it is realized that if the right to elect these directors was carried out in the way it is outlined in the existing act, that they are elected by a selected group of individuals reaching into practically every county in the United States. The directors of these associations are men who have enough public spirit and enough interest in the system to act as directors of that association without compensation. It seems to me that it is safe to place in the hands of that class of men the right to choose a majority of the directors of the banks. I want to call attention to what will happen if you do not.

You have a system of directors of the banks appointed by the farm loan boards. The agents of the banks, as contemplated in the bill, are appointed by the banks; agents in every community in the United States taking the place of the association. You have a political machine such as it is almost impossible to imagine. I know of no more effective means of controlling politics than by handling money—

Mr. WINGO. I have heard that.

Mr. MANSON. I know of no more effective means or way.

You have a novelty here. There is no place to-day outside of Soviet Russia where the Government undertakes to handle the private property of individuals. There is no class of people in this country, except the tribal Indians, to whom the right to manage their own property is not accorded, and I do believe that, in the course of time, when the agricultural communities of the country wake up to find out what has happened to them, the farmers are going to resent being put in the class with tribal Indians. There is no distinction in principle between this bank and the joint stock land bank.

Mr. STRONG. Do you think they would resent the Government establishing an agency in order that they might have cheap money easily?

Mr. MANSON. I think they would resent the idea of the Government taking away from them the control, under the promise of which they invested \$36,000,000.

Mr. STRONG. You do not think they invested that for the purpose of getting control?

Mr. MANSON. No, sir; but under a promise that they would have control when certain contingencies arose.

Mr. STEVENSON. Here is a man who inherits \$500,000; is he, because he did not get it under any limitation, to be denied the right to control it?

Mr. MANSON. No; you have your choice, as I see it, between creating a political machine, which hangs like this chandelier from the top at Washington and reaches down to every agricultural community in the United States, or creating a financial pyramid that will rest on the ground.

Mr. STEVENSON. In the beginning of your testimony when you criticized the judgment of the Farm Loan Board in the manner in which it made the loans—

Mr. MANSON. In the manner in which it made the loans?

Mr. STEVENSON. In the manner in which it sold bonds, in which you thought they were prejudiced by the fact that not having any personal knowledge of selling bonds themselves they took the judgment of the bond agencies.

Mr. MANSON. Yes.

Mr. STEVENSON. It was developed in the committee the thought that if the farm loan boards had permitted the banks to sell the bonds, or to at least put out a subscription list, and present a list of men who would buy them, they might have been handled without a bond-selling agency?

Mr. MANSON. I would not favor that.

Mr. STRONG. Don't you think the central bank idea advanced in this bill, the directors of which are the presidents of the farm loan banks, enables them to follow that policy if they wanted to?

Mr. MANSON. I think it could be made a useful agency; I do not think it should have discretion as to whether bonds should be issued; I think in selling bonds and buying bonds it can be made a very useful agency.

Mr. STRONG. Going back to the agency proposition; don't you think it is true that very often a farmer wants a loan and he is delayed and handicapped because of delay by the association, and the farm mortgage banker has an opportunity to go to him and get a loan, the good loans at least, presenting to him the delay he will have in going through the association, don't you think that such a situation would be relieved by the appointing of an agent?

Mr. MANSON. No.

Mr. STRONG. Don't you think that they would not be appointed only in cases where the farm loan associations did not function?

Mr. MANSON. No; I think that if this bill becomes a law you will have an agency in every community in the United States and there will not be a farm loan association left in two years.

Mr. STRONG. I differ with you.

Mr. APPLEBY. Are there any other questions, Mr. Strong?

Mr. STRONG. No.

Mr. MANSON. Mr. Cooper offered a compilation of the replies to his inquiry as to the views of the association. I have a compilation that is just about as strong the other way. I do not believe that either amounts to much, because I think that anybody who agrees with me will write to me and tell me about it and anybody who agrees with him will write to him and tell him so.

Mr. COOPER. When was your compilation made?

Mr. MANSON. It was made along in April.

Mr. COOPER. Of last year?

Mr. MANSON. 1922; I will show how I arrived at it. I took all of the letters that were written to Senator Fletcher with respect to the proposals contained in this bill that I could get hold of. I examined some of Mr. Flannagan's correspondence, and I had the benefit of my own, and based on that I tabulated the positions taken by the associations whose views I was able to ascertain in that way. A summary of that tabulation is as follows.

Favoring a board of seven members, four to be appointed by the Farm Loan Board and three to be elected, 28 in favor and 673 against.

As to the provision authorizing the banks to make direct loans through agencies, 29 in favor and 676 against.

As to the voluntary liquidation of associations, 30 in favor and 674 against.

As to the organization of a corporation to deal in bonds, 60 in favor and 617 against.

Mr. COREY. Isn't it a fact that the organization you represent and the associations which are members of that organization were practically unanimous in favor of the increase of the loan limit to \$25,000?

Mr. MANSON. I am informed that the organization went on record in favor of that increase.

Mr. COREY. And the figures which you now quote were the figures which were collected as the result of a speech which was franked out by Senator Fletcher in April of last year, long before this bill was drawn.

Mr. MANSON. Here is what happened on the 3d of February, following the Farm Loan Board's report; Senator Fletcher made this speech and franked it out, then he began receiving letters, and those continued to come in until I made this compilation in April, and they are on the same subject matter as is covered by this provision in this bill; and, for instance, Judge Lobdell in his testimony stated that the real purpose of the provision for the breaking of the tie by the farm loan commissioners was to give the farm loan control.

Mr. COREY. Mr. Manson, it is a fact, isn't it that your poll was taken upon a presentation of your side alone and a necessarily partisan presentation of the views of your organization?

Mr. MANSON. No; I would not say that, for the reason they had the farm loan board report before them and the farm loan board's attitude with respect to these questions and reasons for these recommendations were stated.

Mr. COREY. Was the farm loan board report sent with the Fletcher speech to each of the associations?

Mr. MANSON. I was informed at that time that it was sent out by the Farm Loan Board to the associations.

Mr. COREY. I think you are mistaken about that; the farm loan associations never received such a report and the Federal land bank did, and the poll which has now been taken by the Farm Loan Board was not a partisan presentation of the views at all. The bill was sent out and it was a fair consideration on the part of the national farm loan association.

Mr. MANSON. I think the letter that was sent out with this poll by Governor Cooper is misleading, to say the least. I think it expresses his judgement, but I think that there is a widespread demand for this increase in the limit; it has a solid, sound foundation, in my opinion. Many associations all over the country feel that it is necessary. In the letter sent out by Governor Cooper it is stated—and we are not impeaching his motives—I think he believes it—"That you can not get this increase in the limit unless you have this scheme for permanent organization."

Mr. WINGO. You seem to think that the proposed increase in the maximum is the sugar coating of the pill.

Mr. MANSON. It is the bait that is used to obtain support for the bill.

I believe there are a large number of associations that are in favor of the whole scheme outlined in this bill; I do not mean to say there are not. Here is my experience in taking a poll on a thing of this sort: The fellows who agree with me write to me and tell me so and some who disagree say so. I do not think it is likely, however, that a very large percentage of associations would write to the Farm Loan Board and tell them that they did not agree with their recommendations.

Mr. WINGO. Don't you think it is true after all the thing this committee is to do is to analyze the bill very closely and study it very closely, and we know that it is practically an impossibility for a farmer down there who is working like the mischief, to be familiar with it; don't you think you and I both could send out a poll on the same subject to the same men and each one of us technically make a fair statement of it, and each get a different report?

Mr. MANSON. I think so.

Mr. STEVENSON. Is it your thought, in your poll a certain number were in favor of against the appointment of four members by the Federal Farm Loan Board and three by the association?

Mr. MANSON. Yes.

Mr. WINGO. Do you think that appointment of the seventh member would be called into question for any other reason except a real deadlock because of some serious reason; don't you think, in other words, nine times out of ten or twenty-four cases out of twenty-five, the members elected by the farm loan association and the man appointed by the board would get together and agree on the question?

Mr. MANSON. No; I do not.

Mr. WINGO. You would think there would be a bitter controversy?

Mr. MANSON. No; I would not think there would be any controversy at all; I think the members of the farm loan board would appoint three men and say "You choose a certain person as the fourth," and if the association members did not vote for him, he would be appointed anyway.

Mr. STRONG. To be just as fair, do you think the three members elected by the associations would be directed by your national association to vote for—

Mr. MANSON. (interposing). I know they would.

Mr. STRONG. Why do you think the farm loan board would be more unfair than those?

Mr. MANSON. Because they want to keep control.

Mr. STRONG. You want to get the control.

Mr. MANSON. As far as I am concerned, I am not interested in it.

Mr. STRONG. I should think you would be from your statement.

Mr. MANSON. By the way, I would like to offer to the committee a letter written by the Secretary of Agriculture in which he offers a solution for this question.

Mr. APPLEBY. If there is no objection, it may go into the record.

DEPARTMENT OF AGRICULTURE,
Washington, May 18, 1922.

Mr. E. H. HURD,

Secretary-Treasurer Rogue River National Farm Loan Association, Medford, Oreg.

DEAR MR. HURD: Further reference is made to your letter of February last inclosing certain resolutions adopted by the stockholders of the Rogue River National Farm Loan Association, the receipt of which has been previously acknowledged.

The people in the department here who are giving especial attention to credit matters have made a careful examination of the entire situation dealt with in the above mentioned resolutions and have given the questions involved considerable thought. It seems, after taking all matters into account, that the National Agri-

cultural Conference in its resolutions and recommendations not only pointed out the fundamental facts in the situation but suggested a sound plan of procedure. The part of these resolutions to which I have reference reads as follows:

"Whereas the Federal farm loan system has been somewhat hampered in its developments, and has been somewhat modified in its original plan by the exigencies of war and war finance; and

"Whereas the principle of cooperative credit is still new in our country, and, therefore, lacks appreciation by large numbers of our people: Be it

"Resolved: First. We urge the Farm Loan Board to continue to employ extraordinary efforts in the sale of farm loan bonds, and that the Congress pass appropriate legislation to create an agency within the farm loan system to market its bonds.

"Second. We recommend that officers of the board and of the banks diligently and persistently maintain and promote by administration and education the cooperative features of the farm loan system.

"Third. We submit that cooperation succeeds by acts of cooperative responsibility, and we recommend that the Congress provide expeditiously and progressively for representation by the shareholders in the directorates of the banks."

In case it should be deemed unwise suddenly to turn over the control of these banks to the local associations through the election by the latter of two-thirds of the directors, by reason of the possible disturbance in the management of the banks, resulting in a weakening of the demand for farm loan bonds, it should be relatively easy for Congress, by amendment of the act, to provide for a plan of progressive representation by the local associations.

Even a simple arrangement for the election of three out of nine permanent directors by the National Farm Loan Associations at a given date, to be followed by the election of another group of three directors a year later, would seem to provide a safeguard against needless disturbance in the operation of the banks. The first three directors representing the associations, assuming that these should, in the case of some bank, happen to be men with no previous experience in the administration of the system, would then have time to develop the lender's point of view, as well as that of the borrower, before the second third of the directorate, giving a practical control of bank, was chosen by the local associations.

Personally, I have a great deal of faith in the ability of the farmers to select capable men to represent them, and do therefore not anticipate any serious disturbances in the management of the Federal land banks by reason of the control being turned over to the associations. There is possible ground for the belief, however, that investors do not all share my confidence in this respect and that, for this reason, a more gradual change in control would represent the wisest policy.

Very truly yours,

HENRY WALLACE, Secretary.

Mr. APPLEBY. We will now take an adjournment until 10.30 to-morrow morning. (Thereupon, at 4.30 o'clock p. m., an adjournment was taken until 10.30 to-morrow, Wednesday, January 10, 1923.)

COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Wednesday, January 10, 1923.

The committee met at 10.30 o'clock a. m., Hon. T. Frank Appleby presiding.
Mr. APPLEBY. This morning we will first hear Mr. Doak, of Virginia. Please give the stenographer your name in full and tell us what you know about the bill in question.

STATEMENT OF MR. WILLIAM B. DOAK, CLIFTON STATION, VA.

Mr. DOAK. Mr. Chairman, in giving my viewpoint of the Federal farm loan act—Mr. APPLEBY. (interposing). What we want you to do is to confine your talk to this bill of Mr. Strong's.

Mr. DOAK. I would suggest that the act ought to be amended, because there are serious defects in it.

Mr. APPLEBY. Point out the defects, will you?

Mr. DOAK. Here is one: The act puts into the system joint-stock banks, with no limit as to the amount or purpose of the loan. It gives them tax-free exemption that the Federal land banks have.

Here is an amendment which is needed. This \$25,000 limit, for instance, should be made to apply to both the Federal land bank and the joint-stock land banks. The Strong bill does not do anything of that kind, but it does undertake to do a number of

things that ought not to be done. It provides the central banking system made up of appointees of the board through the 12 Federal land banks for syndicating our bonds, and allows them to appoint officers, with salaries without limit, which we construe to be against our interests.

Mr. APPELBY. You speak of "our interests." Whose interests do you mean?

Mr. DOAK. I am a stockholder of the Federal land bank myself. I have an estate of approximately \$600, and I represent a considerable amount, and was asked to come here and protest for that reason for the farmers against this bill.

The situation is this: We have now subscribed and paid in \$35,000,000, and assumed an additional liability of \$35,000,000 in those twelve land banks, and we have already been deprived of any representation whatsoever in their management.

In reference to section 4, it says the Federal land banks shall be temporarily managed by the five directors appointed by the Federal Farm Loan Board. Section 4, clause 7: "After the subscriptions to stock in any Federal land bank by National Farm Loan Associations, hereinafter authorized, shall have reached the sum of \$100,000, officers and directors of said land bank will be chosen as herein provided and shall, upon becoming qualified, take over the management of said land bank from the temporary officers selected under this section."

Mr. APPELBY. They did do that, did they not?

Mr. DOAK. No, sir.

Mr. APPELBY. Is not every one of the land banks now operated by directors chosen in accordance with that act?

Mr. DOAK. No. They are running absolutely in defiance of the act. We have never been allowed to say one word about the management of these banks.

Mr. APPELBY. Will you help us out with this particular point, Mr. Manson? This gentleman makes the point that the Federal land banks are still controlled by the mode of electing temporary officers and not by stockholders; in other words, the directors are not chosen, he said, by the stockholders of the Federal land banks.

Mr. MANSON. That is true. The fact is that the provision of the act for the permanent organization be elected by the stockholders or the majority of whom ought to be elected by the stockholders, is still in force, but it is in suspended operation.

In January, 1918, Congress enacted an amendment to the law, authorizing the government to purchase \$200,000,000 of the bonds of the Federal land banks, and provided that so long as the government held any of those bonds that the temporary organizations of the banks, which had been appointed by the Farm Loan Board and which were then in control should continue in control, and the government is still holding the major portion of those bonds and the temporary organization is still in control.

The features of this affecting the permanent organization amend the provisions of the original act, which provides for the permanent organization, but which have not as yet been enforced.

Mr. DOAK. While we are on that amendment, the amendment itself says that within a year after the armistice that these bonds were to be turned back to the Federal land bank at par. The amendment has been violated, Mr. Chairman, as I said.

It should include this clause, "That this permanent management of boards should be nine members, each holding office for three years; six of said directors shall be known as local directors and shall be chosen by and be representative of the National Farm Loan Association. The remaining three directors shall be known as district directors and shall be appointed by the Federal Farm Loan Board and represent the public interest."

I want to introduce at this point a resolution we have just adopted at our meetings. I am a member of the board of directors at Fairfax County. I was at that meeting yesterday. I was asked to come here yesterday and could not get away.

Mr. APPELBY. We will insert that in the record.

Mr. DOAK. That is substantially as adopted. They changed a few words in the resolution.

FAIRFAX COURTHOUSE, VA., January 9.

Court resolved, by the National Farm Loan Association of Fairfax County, Va., that we are opposed to this Strong bill, except that we favor the increase in the loan limit from \$10,000 to \$25,000.

That we demand our right to elect six of the nine land bank directors provided for by the farm loan act, and the preservation of our national farm loan associations.

That we urge the immediate payment, through our national farm loan associations, of dividends from this undivided surplus of \$4,800,000; also of the premiums on land bank bonds in the Federal Treasury.

The Strong bill is objectionable, again, in that it modifies the purpose, and, in a degree at least, weakens the system, the purpose for which loans can be made. You will recall that a German statesman said, "If you wanted to eat well, go to the savings

banks for the loans; that if you are willing to sleep well and work some you will come to them for the loans."

That is an essential part of the rural credits system. I can see where the trouble is. The board is probably yielding to a strong demand. I see a great many farmers have been making investments and have gotten involved in making investments that were worthless, and they have gotten in debt in a large sum and they are coming now to the land banks to carry them, and that is not within the scope and proper purposes of the system and it ought not to be allowed.

Mr. APPELBY. You refer to page 15, line 14, paragraph (d), "to liquidate indebtedness of the owner of the land mortgaged"? Is that what you object to? If the farmer has speculated in oil and bought automobiles and so on, and you think the land banks should not be allowed to make loans for such purposes; that is your idea?

Mr. DOAK. I think it should confine itself to the original act, which says that the loan should only be applied to productive purposes; that is, for paying off trusts, practically permanent improvements, or in the purchase of live stock or fertilizer for the farm. We consider that constitutes unusual hazards in the system.

Mr. APPELBY. What about the next clause, page 15, section 5?

"And that the seventh paragraph of said section be amended by striking out the figures '\$10,000' and inserting in lieu thereof '\$25,000.'"

Mr. DOAK. Our farmers agree to that, with this proviso—

Mr. APPELBY (interposing). You agree to the increase of \$10,000 and \$25,000?

Mr. DOAK. They agree to that increase; that is, where there is 40 or 50 per cent equity in a family-sized farm, where it would require more than \$10,000.

Mr. APPELBY. You agree to it conditionally, then?

Mr. DOAK. Yes. Our opinion is this: In the South where land is probably worth \$10 an acre that would allow a man to buy a \$5,000 farm.

The most-needed amendment has been ignored. The joker in the farm loan act is this 20 per cent limit on the insured value of the improvements.

As nearly as I can figure out, at one time nine-tenths of the applicants among those farmers who were trying to get into the Federal land bank had no possible hope.

Mr. APPELBY. Why?

Mr. DOAK. This is rough draft of buildings on a farm within an hour's ride of the National Capital, and 1 mile to the station. If a Member of Congress would go over there and look at those buildings and say that in getting a maximum loan of \$700 that farmer has gotten good service under the rural credit systems, then we farmers will never mention the subject again. The buildings have never been estimated at less than \$7,500. They cover a 12-room house, brick dairy, barn 60 feet square, three stories high, covered with tin, box stalls for eight horses and stanchions for 40 head of cattle, mow room for 60 tons of hay, cable carrier stone-walled basement, and other outbuildings, which have been valued at \$7,500 to \$10,000. The maximum loan under the Federal land bank, C. L. of F. Loan Board, on the improvement is \$700, arrived at by taking one-fifth of the insurance policy carried.

Mr. APPELBY. They took into consideration the land, did they not?

Mr. DOAK. Oh, yes. But you see, they segregated, in making the loans, the land from the buildings.

Mr. APPELBY. And they are allowing \$700?

Mr. DOAK. They are allowing 50 per cent of the land.

Mr. APPELBY. And you say the property is worth \$7,500?

Mr. DOAK. I say the buildings alone could not be replaced at \$7,500. They arrived at that by taking 20 per cent of the insurance policy, which happened to be only \$3,500. As a matter of fact, our mutuals will not insure any property at over \$4,000, and they are able to get insurance in the old line companies. When you go in they cancel the policy and return the premium in force on the local association.

I want to make an earnest plea to this committee for the raising of that limit from 25 per cent to 60 per cent. In my judgment it is keeping out 10 people where the \$10,000 from it is keeping out one. It would not be the proportion in some sections; I can see that \$10,000 limit in the corn belt would keep out more people, but taking the United States as a whole, this is the thing that needs to be done first and is most important, because it is keeping out the majority of people.

Mr. APPELBY. That is, to raise the percentage for the amount of the loan as far as the building is worth in value rather than the amount of insurance that they carry; is that what you mean?

Mr. DOAK. I mean to multiply this 20 per cent limit by three, and it would still be the most conservative rural credit system in the world, and it would still be only 45 per cent, that is, 60 per cent of 75. You can only get 75 per cent insurance to cover all the buildings.

As it stands now, the farmer has to have an equity of 9 per cent in his buildings to get into the Federal land bank system, which I think every reasonable man will consider unusual and unnecessarily harsh. I think there should be a limit, but 50 per cent loan is certainly perfectly safe.

This matter of representation is a concession, and yet it is not right. It ignores and it continues to ignore. Three members of our selection and one by the board, which amounts to the same thing, and if there would be a tie the board would decide, and they would still have four and run the bank.

Mr. APPLEBY. Are there any other explanations?

Mr. DOAK. That is all. As farmers we merely demand our rights as to six of the nine directors.

Statements have been made here which reflect on us personally and our organization. It is due me to say that I am seeking no job. In the last fifteen years I have been around the Senate and House Office Buildings probably as much as any other actual farmer in the United States. I defy any Member of either House, past or present, to say I ever asked place or preferment for myself or a friend or for anything else. While I looked around upon the person who makes this insinuation, it dawned upon me that he has just landed in one paying three times a Senator's or Congressman's salary. Whether all these fat jobs are thrust upon him and whether he is worth the price, I am unable to say. He reflects on our association and their paper with the statement that they do not function, and that the only reason our bonds sell better than joint-stock bank bonds is because of Government supervision. Do not both banks get the same supervision? But they do not furnish in equal amount in value this security. This security is furnished by us; that is, the local association. We, the cooperating farmers, undertook to supply the investing public a bond based on land and its productive improvements. We object and the public will to the introduction of hazards contemplated by this bill.

We through the Federal Farm Loan Board are violating the law in failing to order an election of our directors in those land banks which have subscribed \$100,000 stock before this amendment of January, 1918; second, in forcing his loan on our Fairfax Association; that is, the joint-stock land bank appraiser burrett (read Senator Fletcher's statement before the Banking and Currency Committee of April 8 to 15, 1922, page 51); third, in holding undivided surplus and withholding dividends. The Federal Farm Loan Board has denied our local association their directors; their use of the one-eighth of 1 per cent; their right to counsel. It has repeatedly neglected their interest. When our bonds brought 106 per cent, said premiums to go to the borrowers (sec. 13, last clause, Federal farm loan act) instead of protecting or at least securing some of that premium for us they took advantage of the situation to perpetuate their control of the system.

When the year rolled around as required even by amendment, why did they not call on the Federal Treasury for those bonds, sell them, and put the premium to the credit of the Federal land banks for the local association stock holders?

Mr. APPLEBY. The committee will now hear Mr. Lever, former member of the Federal Farm Loan Board.

STATEMENT OF HON. ASHBURY F. LEVER, PRESIDENT OF JOINT LAND BANK, COLUMBIA, S. C.

Mr. LEVER. I do not know that I can add very much to this question. It has been pretty fully covered already.

As a farmer member of the Farm Loan Board, however, I am very glad to be able to indorse the provisions of this bill very heartily.

I was one of a subcommittee, as you know, Mr. Chairman, who prepared the groundwork for the present farm-loan system. I have given a good deal of thought to it, and I am very glad to be able to say that the system as a whole is rendering a most wonderful service to agriculture. I am at present the president of a newly organized joint-stock bank operating in North and South Carolina, and if you gentlemen would go with me over the applications that come to us for loans in which the purpose of the loan must be stated, you would be astounded almost at the facts. I should say 95 per cent of the borrowers in that territory are borrowing money to take care of their losses in 1920 and 1921.

I say it without any hesitation whatever that the farm-loan system through both of its branches is serving the purposes of putting agriculture back on its feet, in my territory at least, and I think throughout the country.

The farmer will come back all right, Mr. Chairman. He has to come back. The farmer is the only man I know of, Mr. Goldsborough, who can not strike. His lifetime is wrapped up in his little farm, his farm houses, his machinery, and his live stock,

etc. He can not pick up like the professional man or laboring man and go somewhere else and get a job; it means too much sacrifice for him. So that he will come back without our help. But the farm-loan system is helping him to come back more quickly by giving him an opportunity to amortize over a long period of time the losses in 1920 and 1921.

What you gentlemen are more concerned with and what we are more concerned with, all of us, is not so much what has been already done by the farm-loan system—and it has accomplished a wonderful work—but we are interested in providing plans by which to continue at full force its operations for the future. The available money for the system for loaning purposes comes, as you know, through the sale of bonds or joint-stock land bank bonds, based upon first mortgage on the ratio of 50 per cent of the appraised value. As a matter of fact, we are loaning about 30 per cent of the value.

The only way to sell a bond to get money is to convince the investor that you have a perfectly sound proposition to sell him. It is a remarkable thing—I happened to be in New York last week when it happened—that the offering of the Farm Loan Board of \$75,000,000 of bonds was taken by 1 o'clock that day. Seventy-five million dollars is not a sum to be picked up in the road; it is lots of money. The Federal land bank bonds are selling on the market now almost with as great ease as Government securities themselves. And, gentlemen, they are selling so readily, for the reason that the investing public has the idea that the Government control of the system is practically absolute, and that is why they are selling so very readily.

We have some trouble, Mr. Chairman, sometimes selling some of our joint-stock land bank bonds, for the reason that, I think—and I think for the sole reason—not that we do not have just as good security back of our bonds as the Federal land bank has but for the reason that the investing public has not been led to believe that our bonds of our banks are as closely controlled by the Government as the Federal land banks, and they are not. I think our bonds are just as good as any bonds. But the Federal Government does not have the control of joint-stock land banks that it has over Federal land banks, and the public knows that.

That leads me to a brief discussion of the only provision of this bill which I think there is any controversy about, and that is the permanent organization of these banks. The Federal land banks are still operating under its temporary organization, because the Government still owns some of the stock in these banks.

The proposition contained in the bill before you proposes that the permanent organization shall consist of seven directors in these various banks, three of whom shall be elected by the various farm-loan associations in the respective districts, three to be appointed by the Farm Loan Board, and the seventh man to be selected by the six.

The original plan of organization was that six of the directors should be elected by the farm-loan association and three appointed by the board.

Mr. Chairman, I was a member of the Farm Loan Board at the time this recommendation was sent to Congress. All the provisions of this bill have been recommended in the annual report by the Farm Loan Board as providing such legislation as will certainly provide for the future successful operation of the farm-loan system.

I disagree with my good friend Mr. Manson that the fact these provisions may have originated with the Farm Loan Board is any reason why they should not receive your favorable consideration.

I am not now a member of the Farm Loan Board, so I think I can talk about the members without throwing any bouquets at myself. I do not believe there is a better board in Washington than the Farm Loan Board. I know, as an ex-member of that board, that there is absolutely no politics in the board; I know that these men are concentrated to their duties, and I know that the recommendations that they bring to this committee of Congress are recommendations that they believe will help the farm-loan system to provide money to the needy farmers of this country. What other purpose could they have, gentlemen? What sinister motive could the Farm Loan Board have in making these recommendations? Are they trying to centralize the power of the system in their own hands? I think not. I do think this, however, that the more the public knows that the Government has its strong hands on the system the more readily will the public buy the securities offered from time to time with which to get available cash for the farmers. I think that goes without saying.

It is suggested that this breaks up the cooperative features of the farm-loan system. Gentlemen, I believe the record will bear out the fact that it was Senator Hollis and myself, who, in the subcommittee, considering the ground work of this act, were the insistent and strong advocates of the cooperative features, so called, of the bill. Not only did we insist on it in committee, but also on floor of the House, as the records of the Senate and House will show.

When the board was organized originally that man of the board who has made a national reputation, and an international reputation, has been an advocate of cooperative agriculture organization, Mr. Herbert Quick, was put in charge of the local loan associations, because it was believed by the other members of the board that of all men he would give them the most sympathetic support; and he did. I did not hear his statement to this committee the other day; I do not know what he said. But I think I know what he believes, because he has told it to me several times.

When I became a member of this board, taking Mr. Quick's place, the then members, knowing my position with reference to cooperative agricultural movements, put me in charge of the local associations. I think it was you, Judge Goldsborough, yesterday, who suggested that you thought perhaps these little local farm organizations might become the nucleus for other cooperative community work. I had exactly the same idea when I went on the board, and if you will go to files in the Farm Loan Board you will find that one of the first things I did was to write a letter to every local association in the United States, then about 3,500, now about 4,600, I think—suggesting the very thought that you have expressed, that the best way to keep the cooperative effort is to show that it pays in money; and that inasmuch as ten farmers by getting their elbows together may make it possible to borrow money in easy terms, might be the entering wedge for teaching them that by doing the same thing in the purchase of lime, lumber, building material, or live stock the same kind of saving might be effected. I wrote that out, too. I thought it was a suggestion.

Governor Cooper will correct me on this, unless it has happened since last May. I make the statement boldly that there is not one of these organizations in the United States taken out itself any additional cooperative work other than the borrowing of money through the system. Do you know of any?

Mr. COOPER. I do not know of any.

Mr. LEVER. So that if there is any hope that these associations may become the nucleus for other cooperative efforts among the farmers, I think we had just to well abandon the hope. I do not think it will come.

In a hearing before the Senate Committee on Banking and Currency, the day I resigned from Congress—I was in pretty good position to talk, as the President had my resignation at the time—I made this statement, that a national farm-loan association was not a cooperative concern and would never be a cooperative concern in the sense that we define cooperation among farmers, for the reason that when a farmer got his \$950, the other \$50 of the thousand being invested in the farm-loan stock, his interest in that concern ceased. I said to Senator Walsh, I think it was, "Senator, your borrower, the member of this association, who has \$50 stock invested in it is not going to ride 40 miles in Montana through a snow storm to collect his \$3 dividend, unless the farmers of Montana are a blamed sight bigger fools than the farmers of South Carolina." He did not think so either.

The farmer in borrowing through this system, Mr. Chairman, is borrowing—that is his prime purpose, he is not looking for an investment in stock. The truth is, he would rather not have the investment. A man who wants to borrow \$10,000 wants \$10,000; he does not want \$9,500 and then a stock investment that may or may not pay him of \$500.

We have the system and it is all right; but let us not make the mistake, gentlemen, of undertaking to run a concern as big as the 12 Federal land banks, which concern must get its money by going out into the market and buying it in competition with Government and municipal securities—let us not undertake to let the 400,000 or 500,000 farm borrowers throughout the United States alone run that kind of a concern. There is no man in the world who has any more respect for the farmer than I have. I have always had, gentlemen, the courage, however, to tell him the truth and not to flatter him. You can not run such a concern as this, with such a scattered organization, as a business proposition. The farm borrowers, as stockholders in this system, have their right of representation on the various boards of directors of these institutions, and this bill provides for that representation. But the Government, on the other hand, gentlemen, has a very strong right to its representation and a very strong representation on these boards of directors, for the reason that, if for no other, the Congress of the United States in the terms of the law itself has said that farm-loan boards are the sacred instruments of the Government; and the Supreme Court has upheld the power in a sweeping decision to sustain the power of Congress to say that.

Now, then, has the Government no obligation there to make good its word? When my friend, the gentleman from Maryland, buys a farm-loan bond, he knows he is in fact buying what he says; it is an instrument of the Government and as good as the Government. And the Government can not make good that word unless the Government has some power of control along with the farm borrower.

I have never heard of any serious opposition to this proposition, and it has been under discussion for five years at least, except as coming from the organization, so called, which Mr. Manson represents. These matters were threshed out, as he knows, by him and myself at a meeting at Albany, I believe it was, about a year ago, at a meeting of the secretary treasurers of that land bank district—was it the entire district or just New York? I want to be correct about it.

Mr. MANSON. I think of that section of the State of New York. You say it was "threshed out." You talked three hours and I talked about three minutes.

Mr. LEVER. You know I can talk when I get before these fellows out in the country.

Mr. MANSON. I could, too, if I had had the opportunity.

Mr. LEVER. Those gentlemen went on record in this matter, and as a former member of the board, with now and then an exception, there has never been a complaint of these recommendations, not one. And yet all of the secretary treasurers have received copies of that proposal. I sent them a circular.

There is this to be said about the whole business: With rare exception the secretary treasurer of the association is the association. It is he who usually takes the appraiser out to see the property, along with perhaps two members of the board of directors. It is he who does all the correspondence for the association; it is he who maps out its policies. The farmer who has gotten his money already and is satisfied with it in ninety-nine cases out of a hundred, ceases to have any interest in it, and the best proof of that fact is the statement, I think, made by Governor Cooper here yesterday that no more than 10 per cent of these associations have held their annual meetings at which they not only should elect their boards of directors, which in turn choose the officers of the association.

I do not know that there has been any special complaint from secretary-treasurers. Now and then you hear some complaint from one who more likely than not is anxious to be a member of the board of directors of his regional bank. I think there is a good deal in what my former colleague Mr. Stevenson just suggested yesterday on the other side, and that is that if you are going to maintain as your plan of permanent organization the plan as outlined in the existing law, there is going to be a tendency growing up and getting stronger and stronger each day for ambitious secretary-treasurers to become avowed canvassing candidates for these jobs. I do not think you can escape it to save your life. I might want one of those jobs myself. If I did I would do like every fellow who wants a job, adopt those methods by which you would get the job. You would go out and seek votes. That would be exceedingly unfortunate, extremely unfortunate. It would be so unfortunate, Mr. Chairman, that I do not believe that the system could as easily and as readily sell its future issues of bonds. I am not an expert on that. You might get some representative of the bond houses to give you expert information on that proposition. But that is my own judgment.

Mr. COREY. The charge has been made that the Farm Loan Board has been particularly unfriendly to the association, and a statement has been made that Judge Lobdell said that he would either abolish the association or resign from the board. You might say what you know about that.

Mr. LEVER. As to the attitude of the Farm Loan Board with reference to the association, I tried to bring out in the statement that at all times since the organization of the system that member who has been known to be most cooperatively inclined in his thinking has been placed in charge of the cooperative features of the system, beginning with Mr. Hurbert Quick, coming on down to myself and then to Governor Cooper, who succeeded me. They are men who have been especially selected by their colleagues in charge of that feature of the system which deal directly with the association, in the belief that if anybody could develop the cooperative idea it would be these men who administer that feature of the law.

Mr. STRONG. Mr. Hurbert Quick, Governor Cooper, and yourself are all in sympathy with the cooperative idea and system among the farmers, are you not?

Mr. LEVER. Absolutely, sir. I think I can state without any fear of contradiction that perhaps no man in the State of South Carolina has made more public speeches in favor of cooperative work among the farmers than myself during the last 20 years.

Mr. MANSON. May I ask Mr. Lever a question?

Mr. APLEBY. Yes; certainly.

Mr. MANSON. Mr. Lever, you refer to the fact that the law provides and the Supreme Court has declared that the bonds are an instrumentality of the Government is one of the reasons why the Government should continue to have a majority of the board of directors. Do I understand you correctly in that?

Mr. LEVER. Yes.

Mr. MANSON. Is it not a fact that the act under which the Supreme Court made that declaration was the joint stock land bank act?

Mr. LEVER. The law itself says so, if I remember.

Mr. MANSON. There is no section, either in the law or in this decision between the bonds of the joint-stock land banks and the Federal land banks with respect of there being instrumentalities of the Government, is there?

Mr. LEVER. No. But let me answer. You do not know the history of this legislation.

Mr. MANSON. Just a minute, I would just like to know this. In view of the fact that you argue that because these are instrumentalities of the Government, the Government should name a majority of the directors of the Federal land banks, and in view of the fact that the joint-stock land banks under the same law have the same character of security, what I would like to know is whether you also favor the Government by naming the majority of the directors for your bank.

Mr. LEVER. I would be very glad to answer that question the best I can. Two systems are provided in the farm loan system—two instrumentalities of loaning money. One consists of the Federal land banks. The Government capitalized those banks, to begin with; the Government still has capital invested in those banks.

Mr. MANSON. In all of them?

Mr. LEVER. I think in most of them. Let me say this, Mr. Manson: I am perfectly willing to answer questions, but I am not going into details, because it has been six months since I left this board. I am trying to give you a general picture.

The joint stock land banks were put into this act for two reasons: A member of the subcommittee, Mr. Moss of Indiana, who met with the tragic death of having been gored to death by a bull after he left Congress, who had been on the committee appointed by President Taft to go to Europe to investigate the whole subject, was never satisfied in his own mind that the federated system, which was so strongly advocated by Senator Hollis and others, including myself, would work. He had grave doubts of it. So that he insisted, for that reason, and the further reason, which I will state in a moment, that you have a back stop, as it were, so that if the one system did not operate and failed that the other would be operated by private capital.

The reason for the joint-stock land bank features in this law is this: I think all of us at that time, every member of the joint committee, knew, as I know now, that there are two types of farmers in America. The one is the cooperatively inclined farmer; the other is individually inclined farmer. One likes to cooperate with his neighbors in efforts to better the community; the other prefers to do his business on his own hook. And you have those two types of farmers and those two types of men, not only farmers, but men in your body politic.

The joint-stock land bank was created to provide for that type, as well as to provide for a second line of defense, if the main purpose of the law fell down, and to have the Government control the operation of the joint-stock land banks as they now control the operation of the Federal land banks would be far beyond the intent of Congress in the creation of the system.

Just one further statement, Mr. Manson, and then I will answer you. I undertake to say this, that if the Government owned a proportionate share of the stock of joint-stock land banks, as it does of the Federal land banks, and if the Government did control perhaps the boards of directors of the joint-stock land banks I am inclined to think that the joint-stock land-bank bonds would sell more readily than they do. Does that answer you?

Mr. MANSON. No, it does not. My point is this, that so far as the argument that the bond is an instrumentality of the Government is concerned, that the control of the bank should be in the Government; that there is no distinction between the joint-stock land bank and the Federal land bank, is there?

Mr. LEVER. So far as the bonds are concerned, so far as the declaration of Congress is concerned, no.

Mr. MANSON. But you predicate, as I understand it, your theory that the Government should control, upon its stockholding. Is it not a fact that in the case of four of the banks the bank does not own a dollar of stock?

Mr. LEVER. I could not tell you that; I do not know. Governor Cooper can furnish that information.

Mr. STEVENSON. If you will allow me to interject a suggestion right there it is not contemplated, as I understand it, that this scheme shall be put into effect until the Government has returned all of its stock. The Government has the control until it does, and this scheme is only provided for when the Government parts with all of its stock.

Mr. MANSON. I would just like to make a statement in the record that will correct the misapprehension that is indulged in by Mr. Lever and indulged in by the Congressman here, that the continuance of the Government control is not dependent under the law on its stockholders. It is dependent upon the continuance of its holding in the Treasury certain bonds, which it purchased under an act passed in January, 1918.

The original act provided for temporary organizations merely to get the system started and provided that when the subscriptions to stock by the farm loan associations amounted to \$100,000 that the permanent boards of directors should be chosen, six by the associations and three by the Farm Loan Board. In January, 1918, eight of the banks had reached the point where they were entitled to elect their directors under that law, although the election which is provided by the law to be called by the Farm Loan Board had not been called. At that time Congress passed this amendment authorizing the Treasury to purchase \$200,000,000 of the bonds of the Federal land banks, and because at that time the Government did not want the Federal land-bank bonds to be competing on the market with Government bonds which it was about to offer, and this amendment provided that the temporary organizations should continue so long as the Government held those bonds.

Mr. STRONG. Mr. Manson, don't you think, and is it not true, that the reason the Government provided by law for the purchase of \$200,000,000 of the bonds of the farm loan banks, was because they could not sell them—

Mr. MANSON (interposing). Oh, no; no indeed.

Mr. STEVENSON. I was on the committee then. Just get it square now.

Mr. STRONG. Yes; I am trying to ask a question.

Mr. STEVENSON. I did not think you wanted to burden the record with a question that is not germane here. Mr. McAdoo, the Secretary of the Treasury, came right here and asked us to make that provision, on the express grounds that he did not want the bonds to become competing with the enormous issues of bonds he was having to make, and he prepared—

Mr. LEVER (interposing). That is correct; that is historically true.

It might be also a matter of historical interest to say that the man of all men who provided for the cooperative features of the farm loan act and who had more to do with the carriage of that measure through the United States Senate, Senator Hollis, was the man who wrote the act, and put it through the Senate. Mr. Manson refers to that act of 1918?

Mr. MANSON. Yes.

Mr. LEVER. For temporary organization. So that notwithstanding the innuendoes and insinuations that have been broadcasted through the country, that that proviso for continuing control in the Government for a certain length of time was the work of the Farm Loan Board, the fact is that the proviso was offered to that proposition in the Senate Committee on Banking and Currency and was accepted by Senator Hollis and defended by him on the floor of the Senate. If you think that is not true, go back to the records and see.

Mr. MANSON. Mr. Lever, you are familiar with the first annual report of the Farm Loan Board?

Mr. LEVER. I can recall it, perhaps.

Mr. MANSON. Is it not a fact that the first annual report of the Farm Loan Board contains the statement that the wisdom of running the banks in the way provided for by the law was apparent, and that the board had recommended a measure which would extend the temporary control?

Mr. LEVER. I do not recall that having been in the annual report, but let me say this, Judge: If the board said that, the board again demonstrated its very sound understanding of this whole system.

Mr. STRONG. Is it not true, Mr. Lever, that every friend of this system that has been upon the board and connected with the perfection of the system and carrying it on have come to believe and say that the continual supervision should be in the Government, in the interest of the system itself?

Mr. LEVER. Absolutely so, without any doubt.

Mr. DOAK. May I ask Mr. Lever a question?

Mr. LEVER. I have known Mr. Doak for two years, and I prefer not to be questioned by him.

Mr. MANSON. May I ask another question?

Mr. APPLEBY. Yes.

Mr. MANSON. Mr. Lever, in your capacity as president of the joint-stock land bank, you have had considerable dealings with bond houses, I assume?

Mr. LEVER. Some; not a great deal.

Mr. MANSON. You know it to be a fact that bond houses do not undertake to handle the bonds of any institution without pretty fair investigation; is not that true?

Mr. LEVER. Absolutely.

Mr. MANSON. And that no bond house is handling any of the bonds of the Federal land banks at the present time without knowing that the bonds were issued under a law which provides that this temporary control may end at any time the Government disposes of the bonds it holds in the Treasury?

Mr. LEVER. The answer to that, Mr. Manson, is this: The bond houses, with whom I have dealt, show a most able personnel—I think the ablest men I have ever met, except Congressmen [laughter], are the gentlemen with whom I have come in contact in the bond business, and I think the gentlemen have so much confidence in the wisdom of the United States Congress as that they do not contemplate that this great system which has been built up shall ever fall into the management of some 500,000 to 1,000,000 borrowers scattered from Maine to California and from the State of Washington to the Peninsula of Florida. That is my answer to that.

Mr. MANSON. You do not question the ability of the syndicate that has taken the Federal land-bank bonds?

Mr. LEVER. It is a wonderful syndicate.

Mr. MANSON. Do you believe that that syndicate has sold this enormous quantity of bonds to the public banking upon Congress amending the law under which they were sold?

Mr. LEVER. Yes, I think they have—not perhaps the first two issues of it, but the public, Mr. Manson, until the last two issues of farm-loan bonds had not become thoroughly educated to a Federal farm-loan bond. The public is now educated to it. The investor is not making a great deal of inquiry about what is back of it. But if Congress should refuse to do a wise thing, and if these banks should get into the hands of the borrowers—who, after all, are borrowers rather than stockholders; that is what they are intended to be; they did not intend them to be stockholders; they are intended to be borrowers: Judge Strong did not go in there for an investment of \$250; he went in there to borrow \$5,000. That is what he is interested in.

Mr. STRONG. And that was all.

Mr. LEVER. And that was all. After all, gentlemen, I do not want to prolong this testimony of mine, because I am right busy and have to go—you gentlemen who are members of this committee have just got one thing to make up your minds, on whether or not, as I believe it to be the fact, the Government supervision of this institution makes for the most ready sale of its securities; that is all there is to it. These other propositions, on my mind, are side issues. But what you gentlemen in Congress are interested in is the perfecting of this law in such a way that it will always provide sufficient money to take care of the long-term credit needs of agriculture, and you are doing that now at the rate of \$1,000,000 per day. There is no such system as this in the world. The Langshastung of Germany, although in existence 155 years, I do not think compares with the system that we have built up here, blazing it out, as it were, in a wilderness.

Mr. STRONG. Which has been built up and fostered under Government supervision?

Mr. LEVER. Exactly. Gentlemen, in reference to the other recommendations contained in this bill, the matter of the loan limit: I have no very decided views on that question. I think Congress is able to take care of that situation in its own wisdom. I do say this, that I think you should give to the Federal land banks the facilities to compete with other loaning agencies; and, Mr. Wingo, I believe you are the only member of the old Banking and Currency Committee left, are you not? It may be of peculiar interest to you, therefore, to know, and Judge Stevenson will bear me out in this, that for the first time in the history of South Carolina insurance companies have reduced their rate of interest to the farmer. They have just done it within the last three or four weeks.

Mr. WINGO. What rate are they charging?

Mr. LEVER. They are charging five per cent, I think, Mr. Wingo, with one per cent commission—about six per cent. I think it is costing the farmers about six per cent. I know it used to cost them commissions plus eight per cent.

Mr. STRONG. Do you not think it is due there as it is due all over the country to this Federal Farm Loan System?

Mr. LEVER. I was just about to say that, Judge—and that, for the first time that feature of the caption of the act, to stabilize the rates of interest and to reduce them, is being felt in my section of the country.

Mr. STEVENSON. There is no doubt about that. That has been brought about, however, without extension of the maximum limit of loans in the Federal land banks. I think that the competition of the joint stock land banks has had about as much to do with that as the Federal land banks.

Mr. LEVER. I did not want to say that, but since you have made me say it, I am confident that you have the correct diagnosis of that situation.

Mr. STEVENSON. The direct result.

Mr. LEVER. The direct result. All the banks operating down there in that territory, I think, I have their loan limit at about \$25,000. That is their maximum limit, and it was not—I did not want to say it—until we got into the field in competition with the old line mortgage companies, with a reduced rate of interest, that they

felt compelled to meet the competition by reducing their own rate. I think that is absolutely true.

Mr. WINGO. Do you know, also, that in some States they have been forced to adopt the amortization plan in order to compete?

Mr. LEVER. I have heard that. Not in my country, but I think that is true in Iowa.

Mr. WINGO. The probabilities are that ultimately these insurance companies will see the selfish wisdom of abandoning making loans direct and invest their surplus funds in the bonds of the system.

Mr. LEVER. That is a sensible thing and that is the thing they will do ultimately.

Mr. WINGO. They can buy the bonds, which are selling at 101, 4½ bonds: that amounts to a little less than 4½ per cent. They are not getting, if they charge the expense of organization and other things, but a fraction over that on those 5 per cent loans they are making.

Mr. STRONG. Mr. Lever, I am very sorry I was retained at my office and did not come in until after you had commenced your statement. Have you discussed the proposition of appointing agents?

Mr. LEVER. I had not suggested that.

Mr. STRONG. That is one feature of the bill that I am very much interested in, because I feel that the farmers of the country, especially in my own State and district, ought to have the opportunity to get these loans without so much red tape and without being forced to be held up or delayed by a cooperative association, if it is not functioning properly. The remedy is suggested, when we have a cooperative association that is not functioning, that the farmers ought to form another one, but that takes time and is sometimes hard to accomplish.

And when a farmer wants to get a loan, should we say to him that he has got to get nine other farmers who may want a loan interested before he can secure one, or he may live in a community where a farm loan association is not functioning or which probably does not desire to take in any more farmers. I think the farmers ought to have an opportunity to secure these loans as easily as possible, and I have suggested the agency system in this bill and insisted upon it, because I want every farmer to be served. If you can think of any other plan I would like to have you do so, or if you approve or disapprove of the appointing of agents I would like to hear you on that proposition.

Mr. LEVER. I very much approve of that provision of your bill, and, as I remember it, Mr. Wingo, the original act contains the agency provision, to expire at a certain time, did it not?

Mr. MANSON. To start at a certain time, one year after the association—

Mr. LEVER (interposing). A national association has been formed.

Mr. STRONG. But where an association has been formed, an agent can not be appointed.

Mr. LEVER. And if it is not functioning, then the only other recourse the farmer has is to do as you say, go out and get nine of his neighbors who want to borrow some money and form an association.

Mr. STRONG. This thought also I would like to get into the record: Often when farmers do get together for the purpose of forming an association, I know that agents for the Bankers Loan Associations, have gone to some of them and said, "We will make this loan for you," and discouraged them and led them away from this system and got them back on the old proposition of renewing the loan and paying a commission every five years, preventing the forming of a farm loan association and destroying the opportunity of the other farmers in the community to benefit by this system.

Mr. LEVER. I agree with you. Judge, you asked a question yesterday, which I want to answer for you. Speaking of the cooperative work of these little associations, your suggestion was that their stockholding was not large enough to create any real financial interest in the association. I think you made that statement, and that some one suggested that perhaps that could be overcome by requiring a larger stock subscription. That same question was asked me in the hearing before the Banking and Currency Committee of the Senate, to which I referred a moment ago, by Senator Walsh, I think, who said that if they do not cooperate because they have not enough financial interest in the proposition; then require them to put 50 per cent of their borrowed money into that stock. I did not have sense enough to answer it on the spur of the moment. It sort of knocked me off my feet. But I got to thinking of it like we usually do, and it was too late; and the answer to it is this, as I brought out a moment ago, that the farmer goes into the system primarily to borrow money; he does not go into it to make an investment.

Mr. GOLDSBOROUGH. That suggestion was not made by me.

Mr. APPLEBY. I think I made it.

Mr. WINGO. There is one practical proposition that the committee would be glad to have your judgment on. Here, frankly, is the contention that is made here: You provide in this bill for voluntary liquidation; you provide for agents. The argument was made here that the logical outcome of those two provisions would mean the wiping out inside of two years of the local association.

Mr. LEVER. I think this is what happened, Mr. Wingo—

Mr. WINGO (interposing). That is the proposition urged here very strongly, and appeals to me. I want your judgment on it.

Mr. STRONG. It has been urged by the men who have been organizing a national association of these local associations, and their attorney.

Mr. LEVER. My own feeling about that is this, very frankly: I think a farm loan association properly organized, properly officered, and properly run is a good thing, and I do not believe that such farm loan associations would liquidate under the terms of this bill. I do think, however, that the nonfunctioning associations would be glad to liquidate and would liquidate. Now, just what per cent of liquidation would take place, I do not know.

Mr. STRONG. If they will not function and serve the farmers, they ought to be allowed to liquidate.

Mr. LEVER. Exactly.

Mr. WINGO. Do you think there will be any more associations organized if we pass this bill?

Mr. LEVER. I have hardly got any judgment about that.

Mr. WINGO. What incentive would there be? Here is a practical argument. A man or a group of men wants a loan. They will say, "What is the use of organizing an association and having a joint liability of 10 per cent? That is more apt to be drawn on than if we become stockholders, with the same liability in the bank."

Mr. LEVER. I think your reasoning is absolutely sound.

Mr. WINGO. If the farmer could not build up a bona fide cooperative spirit?

Mr. LEVER. That is it exactly. And if we can build up the cooperative spirit, if that spirit is in the community, then the association would organize and would not liquidate. If, on the contrary, there was not the cooperative spirit—and there are many communities in which there is not that spirit—they would do just as suggested by Mr. Wingo.

Mr. WINGO. We have provided in this bill that in case there is that cooperative spirit and an agent has made 10 loans to farmers, they may form themselves in a cooperative association.

Mr. STRONG. Let me ask you this: I was not here, of course, when this legislation was first passed by Congress that created this farm loan system. Was it the intention of the Congress to form another cooperative association among the farmers, which, of course, will be a rival of the present farm associations, or was it the spirit and purpose of Congress to provide a way to get the farmers cheap money on their farms?

Mr. LEVER. The latter was the main proposition. Men like Mr. Wingo, Senator Hollis, and myself had the idea that perhaps out of the fact these little organizations had found a way of benefiting themselves in actual money, that they could see other cooperative enterprises might grow up around it. As a matter of fact, they have not.

Mr. STRONG. It has been urged here by the men who are opposing this bill, who have formed this national association out of these 300 cooperative associations which they have induced to join with them, that if this bill becomes a law, that with the right given for the liquidation of these associations, that the Federal Farm Loan Board will do everything possible to force the liquidation of those associations by being practically unfair to them unless they do liquidate. Do you think there is any spirit of that kind in the Federal Farm Loan Board. You were on it for years.

Mr. LEVER. I never found it in the board; no. Mr. Chairman, I do not know that it is of any special interest here.

Mr. STEVENSON (interposing). I would like to ask Mr. Lever about one practical feature of this bill. Mr. Lever, under section 15 of the law as it is now the agent may be appointed where there is no farm loan association; that agent under the present law has to indorse the loan?

Mr. LEVER. Yes.

Mr. STEVENSON. That is a very important provision, it seems to me, because he having to indorse it will certainly hold them down to a good loan. He gets a commission for making these loans. This present proposition seems to destroy that provision, and you will turn loose a lot of agents, if you put it through that way without his having to indorse the loan whose main object will be to get the loan through and secure his commission. Do you not think there is danger about that; do you not think we ought to have that other provision in there still?

Mr. LEVER. I will tell you about that, Mr. Stevenson: This is also true historically that that provision of the act was put into it by me at the suggestion of the rural credit man of Department of Agriculture. He came to my apartment one night and sat with me until 2 o'clock; and that was his scheme of doing this thing.

Mr. STEVENSON. And you were willing to yield to most any scheme to get rid of him?

Mr. LEVER. So I put it in the bill. But the agency proposition has never been utilized. These banks and trust companies will not indorse this paper.

Mr. STEAGALL. It has been done in some instances?

Mr. LEVER. Has been done in some instances; for example, North Dakota.

Mr. STEVENSON. I understand a million dollars of loans have been made that way. Whether they have or not, if we are going to turn this thing over to a set of agents, instead of having 10,000 or 15,000 who are an association and who are going to be jointly liable to pass on whether it is a good loan or not, I think he ought to stand behind the loan. I am entirely in favor of relieving Brother Strong's situation as far as we may do it with justice to the stockholders.

Mr. STRONG. Mr. Stevenson, do you not think it will be pretty hard to get an agent for the small commission we allow him to endorse all the loans that the farmers may make through him in that district?

If the intention of congress was to provide the farmers with the way of borrowing money speedily through this system, which I believe was or ought to have been their intention, and which is now my intention, do you not think we ought to provide a way for them to get the money with the least possible trouble? They are putting up a mortgage on their farm limited to half of the value of the farm, which is investigated by the farm loan bank, through an agent, who appraises it, and that safeguard is made the basis of the loan. Should not the farmer be given the chance to borrow the money as easily as he could do so through another loan agency? The banker's agencies have the same protection and no more; they do not require their agents to guarantee; they loan 50 per cent of the value of the farm, and they have their inspectors approve the loan. Should not we let the farmer get into this system and amortize his loan and make the loan through an agent, if he wants to, and make it as easy for him to get the loan as they get it from the loan companies who charge them higher rate?

Mr. STEVENSON (interposing). May I ask Mr. Lever another question? I want to elicit his opinion about another important feature of this. If you turn this over to agents, with the loans increased to \$25,000, will not the tendency be, as he gets a commission of 1 per cent, to run after big loans and let the little fellow sweat? Is there not going to be some tendency there of that kind?

Mr. LEVER. There is something to that.

Mr. STRONG. Could we not get rid of that by providing a man with a loan under \$10,000 should be preferred?

Mr. LEVER. I had not given that feature of it any thought.

Mr. STRONG. Do you think that would overcome that situation?

Mr. WINGO. Mr. Lever, what do you think is going to happen to the fellows who want \$300 or \$400 or \$500 loan? If he has to get it through an agent, who is going to pay for the gasoline to go out and look at the farm, if he gets only 1 per cent commission?

Mr. LEVER. Of course the agent would not appraise the property; the Federal appraisers would appraise it.

Mr. STRONG. He just takes the application?

Mr. LEVER. Yes.

Mr. WINGO. Do you not think the agent is going to indorse that kind of a loan? If it be wise to abandon your local association and depend upon local agents, it is to the interest of the farmers themselves that they shall have the best agency possible; that the system should operate with smoothness and dispatch; and I suppose that those who are advocating this thing contemplate that local bankers shall be the agents. Do you know of a single State in the Union where bankers are authorized to indorse loans of that kind and take that contingent liability?

Mr. LEVER. No.

Mr. WINGO. You would be up against that proposition, would you not?

Mr. LEVER. Yes.

Mr. STRONG. May I make this proposition: While I am very much in favor of the agency feature, so as to get the money to the farmer with the least possible trouble, yet if there is a community where these \$200, \$300, or \$400 loans are needed, there is nothing to prevent them from organizing a farm loan association if they think they can get them easier that way?

Mr. WINGO. I did not say so.

Mr. STRONG. I am saying it could be done if there was such a community.

Mr. STEAGALL. Mr. Lever, I favored, when the Farm Loan Board was enacted, some liberalization of the scheme for getting closer and more workable contact with the

farmer, who in this country, and especially in my section of the country, was not educated in the thought of cooperative systems or plans; and I favored and supported in the House at the time an effort to incorporate a more liberal, direct plan than the one which was finally adopted.

Mr. LEVER. Yes, I recall that.

Mr. STEAGALL. But is it not much different in attempting now to change the fundamental modus operandi of the system at this day, and a similar scheme offered at the time the system was being incorporated? We have gone thus far under the plan as it exists, floated considerable bonds, done a big business and got the system pretty well going under the present plan. But even though I favored such a plan at first, and I do not say I will not get support from such plan—I can see that it presents rather a different proposition to undertake now to change the basis of the system.

Mr. LEVER. I think it is the contemplation of the author of this bill—and I am sure it was the thought of the Farm Loan Board on its recommendation of a year ago to Congress—that the agency proposition was to apply only in territory where associations were refusing to function. We have a case in South Carolina where families got together—the husband and the sons and the first cousins, etc.—and organized themselves into a farm loan association, borrowed \$25,000 or \$30,000—I do not remember how much—and they refused to elect any other members of that association.

The only thing you have got to do under the existing scheme is for the farmers to organize another association. But there you have double expense of overhead that ought not to exist. There are not many such cases, but there are a few.

Mr. STRONG. And that association that is doing that ought to be allowed to liquidate and get out of the way.

Mr. LEVER. If they are not going to do any business, I should think they would want to quit.

Mr. WINGO. Is there any contemplation on the part of postmasters to be agents?

Mr. LEVER. I have not heard of it.

Mr. WINGO. A good many people think we ought to furnish farm loans so that postmasters could sell them like money orders. I have been impressed with the feasibility and desirability of such a plan.

Mr. LEVER. I think that scheme was proposed once.

Mr. WINGO. I have seriously considered it myself. [Laughter.] You are getting it further and further away from the main object for which it was intended. Lawyers, bankers, and absentee landlords are being considered too much and not enough for the actual farm owner. I never did have much patience with the heads of banks, lawyers, and politicians being farmers.

Mr. STRONG. Some lawyers and politicians are not farmers, though a lot of them are out in Kansas.

Mr. WINGO. I know some politicians who ought to be sent back to the farm, though it would be hard on the farm.

Mr. LEVER. There is nothing at all personal about that, of course.

Mr. WINGO. The question I wanted to ask you in order to get the benefit of your judgment, because I had contemplated offering an amendment to the bill to that effect, was what, in your judgment, would be a safe increase in the percentage, especially of the permanent insurable improvements that is admittedly very low?

Mr. LEVER. That is low. I think you could go up to 30 per cent safely. I have not given a great deal of thought to that. In fact, Mr. Wingo, in the operation of the bank of which I am president I do not take a great deal of stock in a building proposition. I look primarily more to the fundamental security, the land, and about all I want to know as to buildings is whether or not they are sufficient to man the plantation or man the farm.

Mr. WINGO. That was the reason for the low percentage in the original proposition?

Mr. LEVER. Yes.

Mr. WINGO. The major proposition is the one of the percentage of the loan; that takes into question the character of the land, its productivity, and its natural value.

Mr. LEVER. Exactly.

Mr. WINGO. Do you think we could safely go up to 60 per cent?

Mr. LEVER. I think we could.

Mr. WINGO. Has not experience demonstrated that we were overcautious when we put it at 50?

Mr. LEVER. I think we were. I am not speaking as an advocate of the proposition, but I think you can go to 60 per cent.

Mr. WINGO. You remember I insisted on 75 per cent basis, without any provision on insurable permanent improvements?

Mr. LEVER. Yes.

Mr. WINGO. Figuring that the appraisers would do what the private loan agents and appraisers do, that in arriving at the real value for loan purposes, you would sub-

consciously take into consideration the permanent insurable improvements anyway, to a certain extent?

Mr. LEVER. Unconsciously.

Mr. WINGO. They do it unconsciously and it was that very suggestion that they might do that that caused the amendment to be put on to cover the question of the insurable value. Do you not think it would be safe to make it 60 per cent?

Mr. LEVER. I think you can absolutely so.

As to this other provision in this bill liberalizing the purposes of the loan to liquidate the indebtedness of the farm for any purpose incurred—I think that is the provision—I regard that, out of my practical experience in running one of these banks, as very important. Of course, the Farm Loan Board does not look so closely at the purposes of the joint-stock land bank loan as it does of the Federal land bank loan, because I think the joint-stock land banks are exempt from that provision. But in running my bank, Mr. Wingo, I am exceedingly careful to try always to stay within the spirit, which I helped to create, of the farm-loan system, and if I found a man, for example, who was borrowing money—I had an incident just the other day—to pay for a drug store, and that fact appeared on his application, I promptly sent it back to him.

There is not anything in the law that would prevent a joint-stock land bank from making that kind of a loan. But I knew that Congress did not intend that the money provided by this system should be used for that purpose; and therefore I turned it down and sent his initial check back to him. But in going through these applications—and I have gone through, gentlemen, applications involving \$13,000,000 since I have been in South Carolina—you will find now and again that some fellow has mortgaged his farm. I have one man in mind in North Carolina who had been sharpened out of his money by a slick-tongued oil agent to the extent of \$9,000. I went through that loan, carefully examined the appraisers report, and it looked like a beautiful loan. That is all he wanted, \$9,000. His place was only three or four miles from a paved road, and two or three miles from a little town of 4,000 or 5,000 inhabitants. This man had been in politics and in business life in North Carolina, and my mouth was just watering for that loan, because I knew it was a good one from point of security and character of the man. I got to the end of my appraiser's report, where the appraiser makes the statement as to the purpose of the loan, and found that he wanted that \$9,000 to pay for oil stock.

This is not telling tales out of school—I think the board was justified—I did not make that loan until I got a special dispensation from the board reciting the facts. I said to the board, "Gentlemen, is it better, in the interest of agriculture, to shut our eyes to this fellow's mistakes, and provide a method by which he can liquidate that indebtedness, or shall we put his farm temporarily out of production—this act contemplates encouraging agricultural production—while it goes through the process of foreclosure. What did Congress mean? What would Congress have done under like circumstances?"

The board said, "Make him the loan."

If you have occasional situations like that, where the fellow has mortgaged his farm, maybe foolishly, you know, but nevertheless it hangs over him and he is paying 8 per cent or 10 per cent interest, and if we can help him out of his bad fix I think the law intended us to do it.

Mr. GOLDSBOROUGH. Mr. Lever, do you not think it is a much more healthy condition for the farming communities throughout the United States to know that they absolutely can not get loans when they involve their farms with that kind of an obligation? Do you not think that a policy of that kind would tend to keep their minds on their legitimate business, if they know that they absolutely can not get loans unless they do it?

Mr. STRONG. If you refuse to let them make a loan under this system you force them to pay a higher rate of interest some place else?

Mr. GOLDSBOROUGH. But the answer to that is you are not dealing with the individual case; you are trying to get the correct idea of this system into the minds of the farmers as a whole.

Mr. LEVER. I will answer you this way, Mr. Goldsborough: I do not want to say yes or no, because it is not a question that can be answered yes or no. I would say this, that in a case such as I have described, where the fellow has swallowed the bait, hook and all, and has this mortgage on his place, I think we ought to take care of him. I do not think it would encourage the tendency of doing these foolish things such as you may have in mind.

Mr. WINGO. That is Subdivision (d)?

Mr. LEVER. Yes.

Mr. WINGO. What is the necessity of keeping a, b, and c in the bill?

Mr. LEVER. I have not looked at the bill very closely.

Mr. WINGO. Here is the point, Mr. Lever: If a man comes in and makes application for the loan and you examine the purposes for which he desires the loan, and you find he cannot fall under either (a), (b), or (c), then it would occur to the shrewd agent, "I will tell you what to do, Mr. Farmer. You go around here to the bank and borrow the money for 30 days and make your application, and say you want to pay prior indebtedness." And he would get around (a), (b), and (c). Why have them there? If you are going to have any restriction, why not wind up with a basket clause that will let everything through, if it is the intention of Congress to forget the purpose for which rural credit legislation was enacted, and say that the Federal Government is going to set up a machinery to amortize all farm mortgages in America and put them in a Government tax-exempt system. Why not have the courage to say that is what we are going to do?

Mr. LEVER. I do not think that would happen. The cases are so very few that have come under my observation where the purposes of the loan were not absolutely within the spirit of the law that I do not think you would run any risk there, and I do not think, either, that any large percentage of the farmers would take advantage of that situation to do as you suggest.

Mr. STEAGALL. If the cases are exceedingly rare where a meritorious loan of that sort could be made, it follows that there is only the greater reason for adhering to the purpose underlying the act and not making such loan.

Of course, if farmers in general found themselves in that sort of difficulty, the necessity would be much greater for departing from the purpose of the law than there is if it is only in rare instances. If we have only encountered rare instances of that sort, then we have the best opportunity to exemplify and put before the farmers of the country the purposes of this system.

Mr. LEVER. Let me give you an illustration: The Federal land bank at Columbia refused to make a loan when the circumstances were these:

The farmer's little girl was playing out in the front yard. A neighbor drove up with a one-horse wagon. He threw the reins over the dashboard of the wagon, jumped out and went in and chatted with his neighbor. Meantime the neighbor's little girl went out of the gate and somehow or other got her feet into the spokes of the back wheel, the mule in the meantime got frightened and pulled the leg of the little child entirely out of its hip socket here [illustrating]. They had to keep that child in plaster of Paris for 18 months.

Meanwhile this farmer had to mortgage his farm to pay doctor's bills and to keep that child in the hospital. He made application for a loan of \$1,000 or \$1,500 to the Federal land bank and stated frankly and candidly the purposes of the loan. They turned it down. He came to me and I said, "I think that the Federal land bank is right in turning this down as the law now stands. But if you have got the property I am going to make you that loan and take the chances." I did make the loan. The property is worth away above that. When we sent the paper up here as a basis of the bond issue, I sent a letter of explanation with it, and the board very kindly granted me the privilege to do that. But the Federal land bank was absolutely within the law when it refused to make that loan.

Mr. WINGO. That, of course, was a burden that was an incident to a man's farm life. Why can you not frame amendments to the law which would in substance, provide the purposes for which are now set out in a, b, and c; and in addition thereto provide the payments and share the expenses of his family and these dependent upon him, something like that that would broaden it? Of course, the case you mentioned was an incident to the home life of the farmer; it was just as much a part of his everyday agricultural operations as it would have been the part of a lawyer's incidental family expense.

Mr. LEVER. That was the position I took, exactly.

Mr. WINGO. And it was incident to the life he was leading. The point I am making is that I am not opposed to liberalizing it; I think it ought to be. But I do not want to throw up my hands in despair and say it is impossible to frame amendments liberalizing it, and, therefore, in order to meet the very few cases you cite we will throw the bars down entirely.

Mr. STEAGALL. Have they not held in States that giving liens for advances considered essential to the cultivation or growing of crops, that anything in support of a family, such as food, clothing, and medical attention would be covered by the lien? I think that has been the decision of the courts where they have statutes of that kind; and I would say offhand that the loan in the last case you were talking about could be made under the laws that exist.

Mr. LEVER. We made it all right.

Mr. STEAGALL. I think you did right.

Mr. WINGO. Mr. Lever, here is the thought that cautious men have who want to be a friend of the system and not wreck it: They have been surprised that there has not

been any more clamor from city folks that we set up the same kind of a system for them. You know the spirit of the times and that sooner or later that is going to be done. I will not get into that. But you throw the bars wide open and say that any farmer in America can get any sum that the Farm Loan Board is willing to provide by regulations, as authorized by this bill for any purpose, and then how are you going to deny the city dweller the right to have a government-controlled agency furnish him \$25,000 loan or \$30,000 loan on his home; and, if need be, furnish it to him to pay off a mortgage which he has to get money to sit in a poker game?

Mr. LEVER. I see your point; I think there is something to it, and I have no doubt that you, Mr. Strong, and others can get together on some such proposition.

Mr. WINGO. I know I have seen things ruined by loading them down to the extent that the enemies of the system and those who are naturally over conservative can hold it back. I am trying to remember the thought that moved you and me in the early days, and that is the rising tide of tenantry and the home farm owners getting fewer and fewer and land holdings getting larger and larger in the hands of absentee landlords. It was that economic evil, that sore on the body politic that we were trying to get rid of. We wanted to revive and save agriculture in America.

Mr. LEVER. Certainly.

Mr. STEAGALL. I want to ask you this. Of course, as you know, I represent a people where the need for means to farmers is as great probably as in any section of the country, and my whole thought always has been to liberalize the farm loan system as far as it could safely be done. But I do not want to go too far.

Mr. LEVER. You want to be careful?

Mr. WINGO. I do not want to go so far as to bring any harm on the system, and do you think it is safe to increase the loan limit of valuation?

Mr. LEVER. Yes; in certain sections, Mr. Steagall—

Mr. STEAGALL (interposing). What I am trying to bring from you, purely for information, is, what has been the experience up to now at that point, just what danger is there of losses and necessitated foreclosures on the business already done? I want to know about that.

Mr. LEVER. Governor Cooper can give you that detailed information, because I have not kept up with it in the last six months.

Mr. APPEBY. The Governor is going on the stand.

Mr. STEAGALL. I will just wait and let him tell about that when he gets on the stand.

Mr. STRONG. I want to get this thought, please: This section (d), permitting the farmers to borrow to meet their obligations and indebtedness, was put into the bill, of course, intending to relieve those farmers who were in debt, even though it was an unfortunate investment, to relieve the farmer from that burden by giving them this amortized system so that he could pay out.

Now, it is suggested by Mr. Steagall and Mr. Wingo that that might lead to a lot of trouble. For instance, a man might go out and buy a limousine and give a note for 30 or 60 days, and then turn it into a farm loan. That we would like to avoid. You have had experience on this board, and I wish you would try to suggest an amendment to us that would permit the farmer through this system to borrow for his actual indebtedness, but prevent his beating the devil around the bush, as we say, by going to the bank and borrowing temporarily in order to make a loan under this system.

Mr. LEVER. At the first blush, Judge, this could be easily worked out, I think. The Farm Loan Board has a division down there which examines very carefully all these applications and appraisers' reports, with a view to determining whether the purpose falls within the purview of the law. Suppose it was indicated in the application, "When was this debt incurred?" Suppose the application indicated it was incurred 30 days ago. Then the board, under its power to regulate, might make inquiry into that and they would turn it down.

Mr. STRONG. You would limit the indebtedness to a certain length of time?

Mr. LEVER. Something like that.

Mr. STRONG. I wish you would turn your mind to that and work out such a provision.

Mr. LEVER. I will turn it over in my mind and if possible make a suggestion.

Mr. STRONG. I would like to help the farmer who has been unfortunate, if I can.

Mr. LEVER. So would I.

Mr. STRONG. I want to say, in behalf of the committee, that we appreciate your coming before us and giving us the benefit of your experience.

Mr. COOPER. I do not think I ever made a statement in my life that I did not realize after the statement was over that I had forgotten something very important. I had that experience yesterday; and I would suggest to the committee one idea that I thought was important, and in my statement I did not think of it, and that it is as

to the scheme for permanent organization proposed here. Incidentally this answers Mr. Steagall's question about foreclosures, too.

The 12 Federal land banks constitute the cooperative units in the system, because they each guarantee the bonds of the other. There are your cooperative units.

Under this system the Federal land bank in Spokane—I take this extreme illustration—guarantees the bonds of the Federal Land Bank of Columbia. If the Columbia bank knows nothing and has no means through any central or common agency of determining the policy of the bank at Spokane and vice versa, it seems to me you have a situation there that is going to be very unsatisfactory to the banks themselves and going to cause them to hesitate, and will ultimately cause some friction. I wanted to mention that as a reason why there ought to be some central authority to determine the policy of the bank, and I want to answer Mr. Steagall's question in that connection, because it comes right in connection with that: You asked about foreclosures. The Federal Land Bank of Spokane has splendidly managed; there is not any question about that. But they have met with conditions that no one could have foreseen; and they have the greatest delinquent list—I suppose it is greater than any other two or three combined in the system. That is not due to bad management. But they are having foreclosures.

Under this scheme, of course, if the Federal land bank of Spokane should have foreclosures to the extent of impairing its obligations, what does it do? It does not go out of business. But the other banks, being cooperative units, step in and makes good the obligations of Spokane; and therefore, the investor buys the Spokane bond as readily as he would buy the bonds of Springfield, because he has that guarantee; and that is another reason why the investor is not going to attach so much importance to the endorsement of the association.

Mr. STEAGALL. That which you state very clearly is true and, of course, I understand all of that. But what I wanted to know was the experience up to this time at that point as bearing upon the wisdom of increasing the amount to be loaned on the valuation.

Mr. COOPER. Yes, to 60 per cent.

Mr. STEAGALL. That is the point we are dealing with as to whether we should raise it—I am not saying this in the spirit of criticism against the bank at all, and I do not doubt possibly that the same mistake may be made in my own district, and I have no disposition to criticize them, on the contrary I appreciate their effort to do business and to take care of the needs of the farmers, and to try to put the system beyond doubt. But you see the appraiser, in the necessity of things, is under more or less local influence and starts out with the sympathies attached to his environment, and when an application for a loan is made, it will happen in many cases that in loaning that farmer, these neighbors in the community and this banker over yonder, who has got influence and who counts with the man, says to the appraiser that he is interested in this, and he begins to set in motion some influences to help put this loan over, because it is going to help liquidate a part of the debt this farmer owes to him; and, then, he can give his opinion about the value of the land—and you can not run down opinions like the misrepresentation of a particular fact. So that it is important, in the very necessity of things, to throw careful safeguards around the system at that point, and I, for one, would hesitate to see any raise in the limit.

Mr. COOPER. I doubt if it would have any material effect.

Mr. STEAGALL. I might not, there is something in that, I can see.

Mr. LEVER. May I interject at that point?

Mr. APPEBY. Yes.

Mr. LEVER. Mr. Steagall, you have no idea with what extreme care the Federal appraisers are chosen.

Mr. STEAGALL. I am sure of that. I know they are good men, too.

Mr. LEVER. Not only do we choose them with a great deal of care, but each new appraiser is put under the training of one of the oldest and most experienced men they have in the Federal land bank service.

In addition to that, those men are required to come to the Federal land bank of the district and to work three or four days in the bank at first, in getting familiar with the farms, the borrowers, and the regulations of the board; and, in addition to that, they have dined into their ears in season and out of season, "Be fair to the applicant, but do not buy the land."

Mr. STEAGALL. I am sure of that, and I think they have done mighty well. I think they have done splendidly but we want to keep them doing that.

Mr. LEVER. What I was going to say was that the Federal land banks, according to their present policy, are not going to make a loan that they do not regard as absolutely safe.

Mr. STEVENSON. Whether you make the limit 70 per cent or 50 per cent, the question of appraisal value depends on the point of view. I have in mind a man who went on the rocks, and they laid him off a homestead. The sheriff and man chosen by the creditor went on and made the appraisal. The court very promptly confirmed it and some of the creditors kicked. In less than a year after that, in getting a loan I had brought to me the appraisal, and one of the appraisers that appraised the homestead was on the appraisal when they appraised it at \$3,000, and representing the loan company, I split the difference and let him have \$2,000. He died the other day, and they are quarreling about the estate and claiming it is worth \$5,000.

Mr. COOPER. That, I think, clears that up; and then I want to say further, Mr. Steagall, in further answer to your inquiry, that I do not believe there is any mortgage and loan institution in this country that has, when you consider the volume and when you consider the distribution of the loans, the foreclosure record of the Federal farm loan system.

Mr. STEAGALL. That is conceded.

Mr. COOPER. I want to say one other thing. I was afraid, from questions I have heard and suggestions that have been made, that there was some idea that the Farm Loan Board has been to some degree at least actuated by political motives in some respects, and I wanted the committee to know what I am going to say now, because I am a Democrat, and could not be anything else without getting in a different atmosphere from where I have always lived; and consequently I do not afford to say, since I have been on the board, if there had been that disposition—of course, the Secretary of the Treasury is the referee of this board—it could have been put through.

We have made since I have been a member what I would call six major appointments. We have appointed three Democrats and three Republicans. All of those could have been Republicans, and in some cases—in one particular case Mr. Wingo knows about, it was very earnestly urged that he ought to be—but we appointed an Arkansas Democrat, because after canvassing the whole situation that seemed to be the proper thing to do. I want to say that that is the policy and the spirit of this board.

Of course, it may be said, that when the personnel changes, the policy may change. Gentlemen, I do not think that the farm loan system will be without a policy when the members of the present board pass away. We have not all wisdom and all patriotism. But that is the policy and the spirit that is being encouraged there.

Mr. STEAGALL. I have never made any criticism whatever against the board. I think, really, Mr. Stevenson instead of myself is the one who made the inquiry, which is the basis of your statement.

(Thereupon, at 12.45 o'clock p. m., the committee took a recess until 2.30 o'clock this afternoon.)

AFTER RECESS.

The Committee met pursuant to the taking of recess, Mr. Strong presiding.

Mr. STRONG. Mr. Corey desires to make a statement and he may proceed.

STATEMENT OF MR. MERTON L. COREY, GENERAL ATTORNEY, FEDERAL LAND BANK OF OMAHA, NEBR., AND REPRESENTING THE ASSOCIATION OF SECRETARY-TREASURERS OF THE EIGHTH FEDERAL LAND DISTRICT COMPRISING THE STATES OF IOWA, NEBRASKA, SOUTH DAKOTA, AND WYOMING.

Mr. COREY. My name is Merton L. Corey. I am the general attorney of the Federal Land Bank of Omaha and have been attorney for the bank ever since it was organized in 1917. I represent the Federal Land Bank of Omaha, and I think I might well say that I represent all the other Federal land banks of the system, and I particularly represent the Association of Secretary-Treasurers of the eighth Federal land bank district, comprising the States of Iowa, Nebraska, South Dakota, and Wyoming.

I have heretofore discussed certain features of this bill before your committee. I appeared before your committee in November of 1919, at the request of the Convention of Federal Land Bank Presidents, held in Washington, November 13, 1919.

I will say at the outset that there is nothing particularly new or unusual about the provisions of the Strong bill. Ever since the Federal land banks were organized everybody connected with the practical administration of the system has recognized that, while it is a great piece of constructive legislation, Congress, in writing the act, was traveling an uncharted sea, except for the experience which was had in European countries. So when we came to the practical administration of the system in America

it was only natural that there should be some administrative defects connected with the system which the Federal land banks, the farm loan associations, and Farm Loan Board would seek to correct.

I wish to state also that I think the inference of some of the witnesses who have spoken before your committee, that this has not been generally considered and does not meet with the general approval of the farm loan associations of the country, is incorrect. I also think this committee should understand that there has been the finest sort of cooperation between the Federal Farm Loan Board, the Federal land banks, and the vast majority of the national farm loan associations in the several districts. The Federal land banks have kept in close and intimate touch with the local national farm loan associations; they have visited them; they have addressed groups of farmers' meetings, and they have sought to analyze, with the associations, the things which would improve the service of the Federal land banks.

On the other hand, the Farm Loan Board's attitude toward the Federal land banks has been very much the same. I think on the average the Federal land bank presidents have been called to Washington three or four times a year to discuss the needs of the system, and as a result of these various conferences from time to time, and as a result of the practical experience of the farm loan associations, the Federal land banks, and the Federal Farm Loan Board, the provisions contained in the Strong bill have been the subject of discussion for many, many months; in fact, I might say years.

I think you gentlemen ought not to get the idea that the opponents of this bill fairly represent the sentiment of the farm loan associations of this country. I would hazard the guess that in the eighth Federal land bank district I represent more farm loan associations than my friend Mr. Manson represents in the entire United States. Now, gentlemen, that is not at all because the Farm Loan Board promulgated an order that the associations could not take from their treasury this membership fee of \$10 to join this national federation. In the eighth Federal land bank district our secretary-treasurer organized their own association; they have done that in many other districts and it has not been prohibited by the board. The reason the associations in my particular district have not joined the Lyman-Flannagan organization, as we call it, is because they saw from the start that the organization was apparently not designed to be constructive. That was made manifest in our district. The circular letters that were sent out there were, in many respects, false and misleading. The idea of our associations was that the Federal Land Bank officers could be trusted; that the Federal Farm Loan Board was so wisely administering the system that they were entitled to the confidence and support of the Farm Loan Associations.

Now, in August, 1922, Mr. Manson—I have no doubt honestly but mistakenly—sent out a circular letter which was headed, "Justice to present borrowers from Federal Land Bank of Omaha." That brief was mailed to all the secretary-treasurers of the eighth Federal land bank district, seeking to analyze the business of our bank. There were some glaring misstatements in that, not, I assume, because of dishonesty on the part of Mr. Manson, but because he did not know the facts. Mr. Mornin, who is the chairman of the executive committee of the association of secretary-treasurers of this district, and who is here as a witness, sent out, at the behest of the executive committee of that association, a reply to this, pointing out the misstatements in the Manson circular. There has been an apparent attitude on the part of this organization to misrepresent the attitude of the Farm Loan Board and the Federal land banks. The association of secretary-treasurers of our district has raised the funds to conduct the proper campaigns that they feel are necessary to take care of their business out there, and there has not been any prohibition on the part of the Farm Loan Board or the Federal land banks against these associations. They have been encouraged in every possible way.

Now, I want to make something of a general statement and then, because I helped to draft the provisions of this bill (in a small way, perhaps, but as a result of conferences with hundreds of secretary-treasurers and the officers of the Federal land banks, etc.), I want to discuss the particular provisions of the bill and try to show you that from a practical standpoint these provisions are necessary to the proper administration of the system.

Mr. STEVENSON. Before you begin your discussion of the details of the bill, there was a suggestion made yesterday, I believe by Mr. Manson, that appealed very strongly to me, and that was a suggestion as to the classification of the borrowers under the different issues of bonds; and there is nothing in this bill relating to that. What do you think of a proposition of that nature?

Mr. COREY. It is unquestionably true that whatever we might say about cooperation, the act contemplates that the borrowers shall enjoy the benefits of a mutual concern, and by some plan or process the borrower ought to get the benefit of the earnings upon his individual stock. That is now being taken care of, in a measure, in some of the banks. For example, the Federal Land Bank of Omaha declared its

regular 5 per cent semiannual dividend on the 1st of January. In addition to that it made a public announcement since I came to Washington this time of a special dividend of 15 per cent, classified in this way: Each borrower will be paid one-quarter of 1 per cent for each month since he became a member of his particular association, and in that way they are trying to make a fair division of the profits to a particular borrower. I am not saying that that is an exact and fair division, but it is substantially so, and I am heartily in accord with any plan which will more accurately distribute the profits. However, I would not want to say offhand that Mr. Manson's proposal—which, perhaps, he has not considered very carefully—ought to be the one which should be adopted.

Mr. STEVENSON. The point I want to get at is whether substantive legislation is necessary to work that out properly?

Mr. COREY. I think not. I am confident that legislation of that character is not necessary. Since the law contemplates that the banks shall set aside only legal reserves, then any administrative plan that the board and Federal land banks can work out for a fair division of the surplus and profits need not be made a matter of congressional action.

Mr. STEVENSON. When they come to distribute a good many millions of dollars in that way, as ultimately they will be doing, are they not in danger of getting into court if they begin to give one man more than another, on the ground that he has been in longer than the others? In other words, is there anything in the law which permits of discrimination in favor of one stockholder as against another? That is the reason it struck me as though there might be some legislation necessary, and I am asking these questions with a view to looking into this question in the future, but not in connection with this particular bill.

Mr. COREY. I feel this is outside the scope of this particular measure. Of course, I see your point there—that is, in an ordinary commercial corporation any attempt to classify stockholders in the distribution of dividends would instantly be met with a proper legal protest on the part of any stockholders who were not adequately taken care of.

Mr. MANSON. Could I make a suggestion in that connection? I am very glad to learn that the Omaha bank is doing what it is doing and what you have just stated it is doing. It is something that I have agitated to the displeasure of the banks, but I am glad to know it has brought results.

Mr. COREY. Pardon me; there was no displeasure with reference to anything in that connection, but there was displeasure with your mistaken statements in the circular you sent out, and if you want to know what they are I will be glad to mention them.

Mr. MANSON. I know there were one or two inaccuracies in that circular; I know that.

Mr. COREY. To complete the record on that, your statement was that the Federal Land Bank of Omaha had not paid enough in dividends to take care of the interest charge upon the borrowers' investment and stock of the bank. You were mistaken about that, were you not?

Mr. MANSON. Wait a minute. When you come to figure out how much the borrower got of the dividends paid by the bank I think you will reconsider your statement that I am mistaken.

Mr. COREY. I will absolutely not reconsider it: I reiterate it.

Mr. MANSON. I wish to make this suggestion in connection with the idea that was under discussion. While we find that the Omaha bank is doing exactly the right thing in practice, I fear there is nothing in the law which justifies the classification of stockholders at the present time in the declaration of dividends, and I think the law ought to be amended so as to make that very clear. There is another thing. I know in your district there is very strong agitation to reduce the margin between the bond rate and the interest rate charged the farmer to less than the 1 per cent which has heretofore been paid.

Mr. COREY. Surely.

Mr. MANSON. I would favor such a reduction and I believe it should be made, but if it is made without so amending the law as to classify the borrowers it would mean the payment by one class of borrowers of twice as much into the common fund as would be paid by another class of borrowers, while both of them should, as the law stands, participate to the same extent. While the object you wish to accomplish meets with my hearty approval I would like to see it protected by an amendment to the law which would take care of those different classes of borrowers. There is another consideration in that same connection and that is that the law now says, in express language, that whenever any borrower pays out his stock will be retired at par. That means that if there is any portion of the earnings of that bank which equitably should go to that borrower, and which have not been distributed to that

borrower, the bank has no option; it can not give that portion to him because the law expressly provides that it shall be paid out at par, while I think it should be paid out at book value, and my own suggestion was that the borrower ought to get the benefit of the major portion of that when he pays out finally, because it gives the bank the benefit of a greater working fund, and at the same time it increases the fund that is being credited to the borrower's loan and reduces the period over which he has to pay.

Mr. COREY. Well, I appreciate that there is some merit in what you say, Mr. Mansion, but it shows that the practical difficulty of theorizing about some of these provisions of the farm loan act. We have a lot of fellows—but this has no reference to you, of course—who sit around on dry-goods boxes and think they can tell Congress the solution of all the international and financial distresses of the Nation. However, I think you are mistaken in your point and you made the same mistake in your circular letter. You suggested that to do the thing which we threatened to do in Omaha would reduce the rate to 5 per cent, and which by all means ought to be done, would work an injustice to the present borrowers.

Mr. MANSON. Certainly; I agree with you.

Mr. COREY. In Omaha and other districts. You suggested that would make necessary the taking from a man already in something of his reserve in order to reduce that rate to five per cent. Now, again, you are absolutely mistaken, because by the sale of a 4½ per cent bond and the making of a 5 per cent loan rate we have maintained a spread of one-half of 1 per cent, and our business is now of such volume that the net cost of doing the business is one-quarter of 1 per cent, so that with the 5 per cent rate the borrower can carry the load himself without touching the reserve or without touching the surplus or capital.

Mr. MANSON. I am going to ignore personalities, in order that the record may not be encumbered with them, and discuss the question, if I may. Assuming that the half of 1 per cent will more than carry the 5 per cent borrower, which I know to be true, yet that borrower is paying into the common fund just half of what the present day borrower and all of the present day borrowers are paying into that common fund, and upon the distribution of that common fund, in any way that you can legally distribute it under existing law, the fellow who is paying half will participate to the same extent as the man who is paying in the whole of 1 per cent.

Mr. COREY. If your supposition is true then your answer is true, but I do not agree that under the present law we can not make a fair distribution of these surplus profits among the borrowers.

Mr. STEVENSON. To get to the end of my questions and my difficulties, I have been a pretty practical lawyer and banker all my life ever since I was grown. Now, you are making a certain kind of distribution at Omaha by which some stockholders are getting more than others?

Mr. COREY. Yes, sir.

Mr. STEVENSON. They may sit down and do nothing for a great while; they may sit down and do nothing until their mortgages become due, and by the time the day comes for final settlement that thing may have gone along and accumulated, and then you are going to be confronted by a fellow who did not get as much as the other fellows to apply to his mortgage, and the law of every State is that he is entitled to have the money that was properly creditable to him applied on his mortgage or to get it himself. Now, he comes up and says, "I do not owe you more than \$200; you have taken a part of my profits and given them to these other fellows; you have given them more than I received and I demand an equitable settlement." If you proceed along that course without legal provision for it, you are laying up trouble for the next generation, because just as sure as we are here some fellow is going to raise that question when it comes to the day of settlement.

Mr. COREY. My judgment is, Congressmen, that the present Act contemplates the division of all the surplus profits among the borrowing stockholders and that any fair plan approximating such a division would be a proper and legal plan.

Mr. WINGO. I think you are right there, except that you possibly overlook the contention made by Mr. Stevenson or, rather, his suggestion, which is that in the course of time he is liable to come in and contend that your distribution was not a fair one and insist that the only fair one would be a mathematically accurate one based upon the relative proportion of the payments being made by all the persons. I would be opposed to attaching to this bill any scheme of that kind, unless it were very well matured and studied out very thoroughly, but I think you might well consider the question Mr. Stevenson has raised and that it would be a part of safety to work out a legislative provision which would clearly and unmistakably authorize you to do that. I think you ought to have large latitude in arriving at your plan of distribution, but I think it might be well for you to look into the question raised by Mr. Stevenson.

Mr. COREY. You are absolutely right, Mr. Wingo; in fact, I would say that for at least two years this rather troublesome question has been considered by the banks and the board, and I recall that about a year and a half ago I wrote a letter to the Farm Loan Board suggesting this scheme; that when a man comes in he should be charged the book value of the stock; that when he goes out he should be credited upon his loan with the book value of the stock; and various other plans have been suggested. I am sure the board will carefully consider the rather elaborate plan that Mr. Manson spoke about yesterday. However, I think we will all agree it is fraught with some difficulty to work out most carefully.

Mr. WINGO. There is no question about that.

Mr. STEVENSON. I would not undertake to have it incorporated in this bill.

Mr. COREY. I should think not.

Mr. MANSON. I did not bring it up with the idea that it would be incorporated in this bill; it came up incidentally, but it is a matter to which I have given a lot of thought. I want to say frankly for the record that the answer of the chairman of the executive committee of the Omaha district threw a great deal of light on the position I had taken; I recognized a great deal of force in it and it very largely modified the views I entertained at the time I wrote my letter.

Mr. COREY. That is certainly very generous and fair.

Mr. MANSON. I do not claim to have any more knowledge of this subject than an intelligent man can secure through a careful and close study of the situation; that is all.

Mr. COREY. Now, gentlemen, I think we all recognize that if we start out with a false premise we can make a plausible argument for almost any proposition. I think the false premise of the opponents of this bill is that the association is sacred and must be preserved at all hazards. If you adopt that false premise, that at all hazards the association, whether it is operating efficiently or not, must be preserved, then you must give a good deal of credit to some of the arguments advanced by the opponents of this bill.

To my mind and to the minds of the Association of Secretary-Treasurers of the Federal Land Banks, of the borrowers, and of the Farm Loan Board, the real, substantial, and what I think ought to be the controlling, premise is: What plan or scheme will give to the present borrowers the largest possible dividends and will give to the farmers not yet served the lowest rate, the highest dividends, and the cheapest and most effective services. After all, that is what we want to accomplish by these amendments. If you will apply a fair test to the provisions of the bill, as everybody connected with the writing of the bill has applied it, I am convinced you will agree that all of its provisions will give the borrowers better service, lower rates, and larger dividends, and if the provisions can not meet that test then preserve the association at all hazards.

Now, there is no thought at all in the minds of anybody who had anything whatever to do with the writing of this bill that they would ask for an instrument whereby they could abolish the associations. I will go into that in more detail in just a moment, but I want to cover one or two more general propositions first.

We have quite an unusual and unique situation, in view of the general impression that there is a shortage of money to lend to the farmers. We have that situation throughout what, it would be fair to say, constitutes 80 per cent of the agricultural land value of the nation. While I am speaking at times particularly of the Omaha Bank, the argument applies with equal force to a large part of the St. Louis district, the St. Paul district, the Wichita district, the Louisville district, and the Spokane and Berkeley districts, because they have in some parts of their districts exactly the same situation as we have in about half of our district.

Now, you have this unusual situation. I know exactly what the machinery is of the Federal Land Bank of Omaha, because I started in there just as green, undoubtedly more inexperienced than some of the others who have had to do with the organization of the administrative machinery of that bank. We started with nothing more than a copy of the farm loan act and we had to work out the practical problems. We have very efficient machinery there and with that machinery, in the month of October, 1922, we loaned \$1,265,400, and in November, 1922, we loaned \$1,104,600; the Wichita district, with machinery second as good as ours, Mr. Strong, in October loaned \$1,600,300 and in November \$1,543,500. Gentlemen of this committee, there are thousands upon thousands of farmers in the territory covered by these banks who are terribly distressed because the Federal land banks are not functioning to serve them. Now, what is the situation? The Federal Land Bank of Wichita and the Federal Land Bank of Omaha could, with the utmost ease, have loaned during each of those months \$3,000,000. Not only that, but the bond market is such that the proceeds of the bond sales are adequate so that if the Federal Land Bank of Omaha or the Federal Land Bank of Wichita in any one of those months had been asked for \$3,000,000 or \$4,000,000 they could have furnished the money. Now, why do they not take care of the farmers in

that territory where they are very, very much distressed today? They are not taking care of them, gentlemen, because of a lot of provisions in the farm loan act which this bill seeks to correct.

Mr. STRONG. There is now too much red tape.

Mr. COREY. I will go into that in greater detail, but your statement is partially correct. There is too much red tape, a refusal on the part of associations to function, a slowness in service because in many places the associations will not properly function, and an arbitrary loan limit of \$10,000 which takes from the farmer a fair average loan upon his land. Now, I am going into that question later, but take Congressman Wingo's district as an example. I have no doubt that Congressman Wingo would say, "You ought to take care of the average farmer in the State of Arkansas." Well, the census statistics show that the average value of a farm in the State of Arkansas is about \$4,000. That is the average value of a farm in that State, and we will certainly all agree that the average man ought to be taken care of under the terms of the Federal farm loan act. Now, the average value of a farm in the State of Iowa is \$39,000. You do not want the farmer to reduce the size of that farm to an uneconomical unit of 40 acres. Experience has demonstrated in this greatest agricultural State of the Union that a 160-acre unit is the economical unit which a man must have to make his farm profitable. I recognize that Congressman Wingo and all of you other gentlemen, whatever the situation may be in your own particular State, are going to take a national view of this thing, with the view of relieving agriculture generally.

The constant criticism of the Farm Loan Board was the basis of much of the case which was made by the opponents of this bill. They went with careful detail into the various bond transactions, but I am not going into that question at all because I think it is entirely outside the question. I think that if the Farmer Loan Board has made any mistakes they are comparatively unimportant in this hearing, but I do want to make this statement, that since Judge Lobdell became farm loan commissioner there has not been a single mistake made in the offering of farm loan bonds. Judge Lobdell may be modest about his statement as to his inexperience in the bond business; maybe he was inexperienced when he came in five years ago, but he certainly must have gained a lot of experience from his connection with the Farm Loan Board because if you will examine every bond sale with which he was connected since he became commissioner you will find he offered that bond at a going market price and that there never was any material advance over the price at which the board marketed the bonds, and I say that is mighty effective bond marketing.

There was another inference, although I do not think it was seriously suggested, and that is this: That some of the Federal land banks desire an increase of the loan limit because as soon as they can write larger loans it will reduce the work of the officers of the banks. Gentlemen, there is no such thought at all on the part of the officers of the banks. If they wanted to get out of work they certainly would not be urging an increase of the loan limit. The distressing thing to the banks in the great agricultural territory of this country is the condition I described in the Omaha Bank and in the Wichita Bank where, with distress all around them, they find they can not serve the farmers. That is the thing that is bothering these banks, and you may be absolutely sure that every bank in the system recognizes, first of all, that they are going to take care of the small farmer. There has never been any discrimination against him and there never will be any discrimination against him.

Now, I am going to take up the particular sections of the bill, and unless your questions lead me out I shall be very brief with reference to each of the sections, because I recognize that they have been pretty thoroughly discussed before you.

The first proposition is that the expenses of the system should be distributed among the joint-stock land banks and the Federal land banks in proportion to gross assets. Nobody would question, particularly in so far as the joint-stock land banks are concerned, that the practice now followed with reference to national banks should be put into effect, that is, the proper assessment of the expenses of the comptroller's department. Now, the same is equally true, I think, of the Federal land banks. The Federal land banks have had the advantage of free Government capital, although gradually diminished over a period of the last five years. They are firmly established; they are making large profits; they are paying large dividends to the borrowers, in addition to giving them directly and through competition very low farm loan rates and rates which are very apt to become lower. Therefore the farmers will not complain at all, and the Federal land banks and the farm loan associations, with which they come in contact, are all agreed that it is only fair that they pay the expenses of the system.

I will pause at the end of the discussion of each section because I believe that would be a very proper place for questions if you gentlemen wish to ask any questions.

Mr. STEAGALL. I want to ask you a question or two. Whom do you say you represent?

Mr. COREY. I represent the Federal Land Bank of Omaha and the Association of Secretary-Treasurers of the Eighth Federal Land Bank District.

Mr. STEAGALL. What benefit is to come to any of them by imposing upon them the expense now borne by the Federal Government, which amounts—I will ask you how much it does amount to?

Mr. COREY. Can you answer that, Governor Cooper? I can not.

Mr. COOPER. I do not recall just at the moment.

Mr. STEAGALL. It is a considerable amount, is it not? Some hundreds of thousands of dollars, and that being so, what benefit would that be to the people whom you represent?

Mr. COREY. It would be of no financial benefit.

Mr. STEAGALL. It would impose a considerable burden on you, would it not?

Mr. COREY. No, not a considerable burden.

Mr. DOAK. Mr. Flannagan said it was about \$300,000, or something like that.

Mr. STEAGALL. That is my recollection, something over a quarter of a million dollars was the expense. Now, it will necessarily follow that that expense will increase as time runs along, will it not?

Mr. COREY. No; not proportionately to the increase—

Mr. STEAGALL (interposing). But it will increase, will it not?

Mr. COREY. As the system grows it naturally would.

Mr. STEAGALL. Do you not think the farmers of the country are fortunate in having that expense taken care of by the Government at the present time and would it not be better for the farmers interested in this system, and who own it, to let that expense continue to be borne for the present by the Federal Government?

Mr. COREY. So far as the Federal land banks are concerned, and when you consider that there are 70 joint-stock land banks and that all the expense they propose to take care of is just the administration of the system here at Washington, it is so small as to be comparatively unimportant.

Mr. STEAGALL. What benefit would come from making a change?

Mr. COREY. Certainly no financial benefit.

Mr. STEAGALL. What other benefit?

Mr. COREY. Well, just this, perhaps, from the standpoint of the men who have contended that all the farmers want is the machinery established by the Government through which they could pool their securities and market them so as to enjoy the lowest possible net rate on their loans.

The Government provided that machinery and the farmer is willing to make good his suggestion that they can carry on the system and pay the expenses of it.

Mr. STEAGALL. I would be slow myself to accept the idea that we ought to transfer this cost to the banks at present. Maybe the time will come when it ought to be done. But I have been slow to reach the conclusion that the time had come when it was wise to do it.

Mr. COREY. Why should the Federal Government pay the central expenses here at Washington of the examination and administration of 70 joint stock land banks operated upon private capital for private profit?

Mr. STEAGALL. Some people asked the question why the Federal Government should have ever attempted to set up this system at all. I think the Government was very fully justified in everything it has done and is justified in all it is doing now, and what I am thinking about is the continued success of the system, and the confidence that the investing public will have in it. Whether the best interests of the system will be promoted by separating the system from the government at any point, so long as the Government is paying all these expenses and keeping watch on the system, there is a good big benefit to be derived in the matter of confidence that will be maintained in its success, and in the management and supervision.

Mr. COREY. Mr. Congressman, doubtless you might be interested in the statement in the record of the annual expense which is now borne by the Government and what that expense would be to each Federal land bank approximately if this amendment was passed. Would you be?

Mr. STEAGALL. I know what that would lead to, of course. Without having the figures, I suppose it would be very small?

Mr. COREY. Yes.

Mr. STRONG. As I understand, if this amendment should prevail, the joint stock land banks would pay about 50 per cent perhaps of the total expense. But now the joint stock land banks, being private institutions, pay no part of the burden of the cost of the system. As a matter of sound governmental policy, these institutions ought to pay their own expenses.

Mr. STEAGALL. I do not know that in the course of time it should be done; maybe it should be done now. I have been slow contending that time had come.

Mr. GOLDSBOROUGH. Would there be any restraint under this bill in the amount of expense incurred by any land bank or the Federal Farm Loan Board?

Mr. COREY. The land banks now, you understand, have no check up on their expense except what the Federal Farm Loan Board maintains—their direct expense—the only item of expense involved in this bill is that connected with the administration of the Farm Loan Board here at Washington.

Mr. GOLDSBOROUGH. Suppose some Federal farm loan bank wants to erect a building. What, if any, limitation does the law provide on the amount of expense to be incurred?

Mr. COREY. There is no limitation in the act now.

Mr. GOLDSBOROUGH. I mean, under the amendment, under this bill.

Mr. COREY. None under this amendment, no. If you attended that meeting at which Judge Lobdell testified—

Mr. COOPER (interposing). If Mr. Corey will allow me. The Farm Loan Board would ask that this bill be amended so that the amount of these expenses should be determined by Congress just as you now do in appropriations. We do not want that responsibility.

Mr. WINGO. You mean let them reimburse upon appropriations?

Mr. COOPER. We would rather the Congress would always have control of that.

Mr. WINGO. In other words, reimburse the expenses like the Federal Reserve Board?

Mr. COOPER. Yes; that would be our desire.

Mr. WINGO. I think that we provide each year and permit reimbursement.

Mr. STEVENSON. Something like that.

Mr. STAGALL. I think that suggestion is a wise precaution to come from a member of the board, because I know you do not even want to get yourselves in the situation that we have been confronted with in another board.

Mr. COOPER. It is the unanimous opinion of the board that that should be controlled by the board and be reimbursed.

Mr. COREY. Going to the next section, the question of permanent organization. We must recognize that there are three parties in interests here—borrowing stockholder, the bond investing public and the future farmer borrower. The first two classes, insofar as the system has operated up to date, have been adequately taken care of. The Government control has been rather complete. It unquestionably has impressed the bond market; it has given the present borrower a low rate, and the close control has in large measure doubtless been responsible for the payment of substantial dividends by several of the Federal land banks.

After all, the most important matter to consider is the future farmer borrower. The outstanding thing we have got to think about is whether or not we can at all times preserve the confidence of the bond-investing public so that farmer not yet served will be served.

Can you think of a reason why the Federal land banks, operating, i. e. true, in the best territory of the United States but operating as well, gentlemen, in the territory into which heretofore the farm mortgage companies have refused to go at all, or if they have gone, have entered the territory and made an excessive interest rate charge—I say, can you think of any reason why the Federal land bank bonds have enjoyed a better market than have the joint-stock land bank bonds?

There is a reason for it. The joint-stock land banks to-day, gentlemen, according to their advertisements, generally have been writing their loans in the cream of the agricultural territory of the Nation, in the territory which the farm-mortgage companies have considered the best agricultural territory. With these loans which we might call the cream loans, they have gone into the bond market to sell their bonds, and generally they have been compelled to sell a bond at one-half of 1 per cent more than the Federal land-bank bond. There is only one fair deduction, I think, that you can draw from this situation, and that is that the mutual interdependence of all the Federal land banks, the mutual guaranties of the bonds of each bank, and the close Government control of the system, has impressed itself upon the bond market in spite of the fact that included in the Federal land-bank issues there is a great volume of securities which heretofore have been declared unsafe for the farm-mortgage companies.

Gentlemen, one of the most vital things in this bill is not to disturb the confidence of the bond-investing public, for if you do you will force the future farmer borrower to pay a higher rate of interest than he has been paying in the past or would pay if you allow the Government control to remain unimpaired.

Mr. MANSON. I might suggest, Mr. Corey, that you overlooked one of the marked distinctions between the Federal land-bank bond and the joint-stock bank bond.

Mr. COREY. What is it?

Mr. MANSON. The fact that all loans made by the Federal land banks are indorsed.

Mr. COREY. Well, we are getting into that old discussion about which you have talked and I am making the old reply, that the stock liability of the individual borrower remains exactly the same whether he is a borrower through the Federal land bank or through an association.

Mr. GOLDSBOROUGH. Mr. Corey, you said a few minutes ago that there were three parties interested in this system—the borrower, the bond purchaser, and who else?

Mr. COREY. The future borrower.

Mr. GOLDSBOROUGH. And the future borrower. You do not think that the tax paying public should have any relative consideration in determining just what the law should be?

Mr. COREY. I would not say that. Do you refer to the proposition of tax exemption, Mr. Congressman?

Mr. GOLDSBOROUGH. Yes.

Mr. COREY. If you want me to give you my individual opinion on that, I would be glad to do it. Our position on that, and always has been ever since the tax-exempt features of the farm loan act were fought by the Farm Mortgage Bankers' Association, is that at the time the agitation began the tax-exempt farmers' securities constituted but one-thirtieth of the volume of tax-exempt securities in the United States, mainly for the benefit of the city dweller.

That complaint ought not to be made of a tax-exempt security which benefits the borrowing farmer. Now that percentage is not the same at present, of course. My individual idea of that is simply this, that if you were to separate the Federal-land bank bonds and repeal the tax-exemption clause, you would force us into competition with billions of dollars of municipal bonds, and you would force a higher rate upon the borrowing farmer. I agree with you that tax exemption is uneconomical and unsound, and I hope that the constitutional amendment now being proposed will pass, and at that time the farmer, competing not with other tax-exempt securities but securities of the same class, will be in a position to take care of his interest at low rates.

Mr. MANSON. Mr. Corey, might I ask you a question on that point?

Mr. COREY. Yes.

Mr. MANSON. I believe you were here when Mr. Quick was testifying?

Mr. COREY. Yes.

Mr. MANSON. And Mr. Quick stated that one reason this system could not to a greater extent bring about a change from tenancy to farm ownership was that to-day the rental value of land was less than the interest rate upon loans. I think that was what Mr. Quick stated.

Mr. GOLDSBOROUGH. That is certainly true, is it not?

Mr. MANSON. Yes, I believe that to be true. Do you not believe, that, admitting this tax-exemption to be a bounty, that the public interest justifies the granting of that bounty to the farmer in order that tenancy may not increase and that tenancy may decrease? Do you not believe that there is enough difference between the value of a tenant farm to the public generally and the value of a farm borrower by the owner to the public generally to justify whatever bounty the farmer may be getting out of the tax-exemption?

Mr. COREY. I agree absolutely that in the present situation the farmers tax-exemption ought not to be disturbed.

Mr. STEVENSON. Mr. Corey, you made the statement a minute ago that it would put the farmers' securities in competition with municipal and other securities of that kind if his tax-exemption was repealed now. You do not mean to say that the securities of municipalities and counties and other subdivisions are now subject to tax?

Mr. COREY. Oh, no. No; I do not mean that at all. I meant that they are tax-exempt, and that if you would repeal the tax-exemption of the farmers' bond you would force his taxable bond in competition with the tax-exempt securities.

Mr. WINGO. Let us see. Municipal bonds are not tax-exempt now absolutely. They are taxed right now. Every State in the Union taxes everybody else's bond but its own, and the great bulk of the municipal and State bonds of the United States—over 80 per cent of them—are sold and held in States other than the States of the issue and are subject to taxation in those States and are taxed.

Mr. STEVENSON. But the United States can not tax them.

Mr. WINGO. But that is one of the questions raised in here that you are not giving the States a reciprocal advantage, because, as a matter of fact, the great bulk of State securities are now taxed by the States, and that you are not giving them that right by the Greene resolution. They already have that right and are exercising it.

Mr. STRONG. Is it not true that until the Government commenced to issue tax-exempt securities for the benefit of the farmers, we never had any complaint about the tax-exempt bond?

Mr. MANSON. Mr. Corey, you made some reference to the farm mortgage bankers? Mr. COREY. Yes.

Mr. MANSON. From what you know of the agitation for the amendment to the Constitution for tax-exemption, is it not your opinion that if farm mortgage bonds were exempted from the operation of that amendment the agitation for it would cease?

Mr. COREY. Well, I refuse to express an opinion. I really do not know.

Mr. STEAGALL. You expressed the opinion that they are getting the advantage now of a low rate of interest by virtue of that exemption. There is not any question about that, and this talk about taxing the bondholder by amending the Constitution is utterly baseless, then, is it not, according to your theory? In other words, the benefit goes to the borrower and not to the man who is making the loan. There is no question about that?

Mr. COREY. I think so.

Mr. MANSON. The bondholder is paying the tax in the lower rate of return and the farmer is getting the benefit of it?

Mr. COREY. There is no doubt about that. I did not intend at all to get into a discussion of that.

Mr. MANSON. These fellows in Congress, as a rule, Mr. Corey—the men who have fought at every point to relieve the wealthier class of their surtaxes and their excess-profits taxes, and all that sort of thing—are the very crowd that are now clamoring for an amendment that will enable the Federal Government to tax these bondholders, who are carrying the tax-exempt securities. They are after them now good and hard.

Mr. STEVENSON. To come to this section you are considering, on page 5, I want to get a little light, because I want to vote intelligently. You are considering section 2. On page 5 it says: "In voting under this section"—that is, for the election of these three directors—"each association shall be entitled to cast a number of votes equal to the total voting strength of the stockholders in association meetings." What is that?

Mr. COREY. Total voting strength—each borrower has 5 per cent of the amount of his loan in stock, except that no borrower can vote more than 20 shares.

Mr. STEVENSON. And the association then can vote as many shares as each borrower has?

Mr. COREY. That is right, with the limitation that shares to any one—

Mr. STEVENSON (interposing). Then, "and each borrower through agencies shall be entitled to cast 1 vote for each share of stock held by him in the Federal land bank, not exceeding 20 shares." That puts the stockholders then all on equality: that is what I wanted to get at. I was not sure about the arrangements. That is all I wanted to ask you about.

Mr. COREY. Gentlemen, in spite of the agitation of the opponents of the bill by circular letters, etc., against the provisions of the permanent organization of the Federal land banks, I can say absolutely so far as I know secretary-treasurers they are not at all concerned in this so-called attempt to preserve their right to elect a control of the Federal land banks. They know just as well as we know that the important thing to them and to their neighbors is the impressing of the bond-investing public all the time with the solvency and safety of these securities.

I recognize that in perhaps most of the Federal land bank districts, if the stockholders were allowed to elect the directors they probably would elect the present directors: I have no doubt that 90 per cent of the stockholders in my particular district would elect the present executive committee of that district. But it is not so much a question of what might take place there. We know how nervous the bond market is, and the bond investor is speculating on what might happen in a particular district where he thinks he can see that a particular radical crowd might take control of the banks.

I go now to the third section, the central Federal land bank provision, and call your attention, first, to the first paragraph of section 13 of the original act, which provides that "every Federal land bank shall have power to issue, subject to the approval of the Federal Farm Loan Board, and to sell farm loan bonds of the kind authorized in this act, to buy the same for its own account, and to retire the same at or before maturity."

The last paragraph of section 12 provides: "Funds transmitted to Farm Loan Associations by Federal land banks to be loaned to its members shall be in current funds or farm-loan bonds, at the option of the borrower."

You will find, if you examine the farm loan act carefully, that there is no provision under the terms of the act authorizing the Federal Farm Loan Board to constitute itself a central bond issuing and bond marketing organization; and since the first bond was issued by the Federal farm-loan system, the Federal Farm Loan Board has adopted the policy of grouping these bond issues and marketing them as a selling organization. I think there is no doubt that the original theory of the Federal farm-

loan act was that as a particular land bank closed a bunch of loans, after they had been approved by the Farm Loan Board, that they should bunch those securities together, that they should issue bonds against them, and that the particular land banks had the right to go out and market those bonds. I think there is no doubt about that. As a practical proposition, we must recognize that legislation, no matter how good its fruits are, is oftentimes dependent upon the wise administration of the legislation. As a practical proposition it was the judgment of the Federal Farm Loan Board that they should market these bonds by the group-selling process that has been followed ever since the first bond was marketed.

Let me tell you several reasons why this became absolutely necessary:

In the first place, it takes, roughly, perhaps from 30 to 60 days to close the loans. No Federal land bank can send out a bunch of applications, take those applications, approve them and promise the money to the borrower, unless he knows in advance that he is going to have the money to take care of his commitments. This made absolutely necessary that from time to time the Federal land bank presidents should meet with the Farm Loan Board, and that they should as nearly as possible from their experience in the past, and from the general credit situation in their particular territory, and the agricultural wealth of the territory, that they should determine as nearly as they could the volume of money that would be required for that particular bank up to the time the next bond sale was to be conducted. So that made necessary this group selling. That has been done unofficially. Each time that the Federal Farm Loan Board markets these bonds, they ask all of the Federal land banks, because of the intent of the law that each Federal land bank should have the power to market its own bonds; the Federal Farm Loan Board asked them for special authority by resolution to market these bonds.

The present system of marketing is the system which was successfully followed in all the Liberty bond issues, and while I profess to know nothing about the bond business, the results have been so satisfactory that I am sure the practice ought to meet with the approval of Congress.

Mr. STRONG. Is it not true that the provisions of this bill do nothing more than authorize a continuance of the practice that now exists?

Mr. COREY. It amounts to that, Mr. Strong. The intent of this bill, gentlemen, is to legalize as nearly as possible the present practice of the board, with this difference, however: Now the Federal Farm Loan Board accepts the responsibility for the making of a bargain for the sale of these big group issues of bonds. This bill in a measure restores the fundamental thought of the original farm loan act, in that it provides that the bond issuing and the bond selling organization is to be constituted by combining the presidents of the 12 Federal land banks. It is a recognition of the original provisions of the act, with the addition of what practical experience has demonstrated is necessary, that they should group their bonds and have one short selling campaign.

Mr. STRONG. It also has another advantage, has it not, in bringing about the issuance of a single standard bond?

Mr. COREY. Yes.

Mr. STRONG. Which can not be discriminated against by the State legislatures.

Mr. MANSON. Mr. Corey, would a law such as they have in Massachusetts and New York, which provides that the savings banks in those States may invest in the bonds of the Federal land banks doing business in the district in which that State is located—would not the effect of this be to bar this security issued by the Federal land bank from investment in those States by those institutions?

Mr. COREY. You mean the bonds of other Federal land banks?

Mr. MANSON. Well, the bond that will be issued here will be by the central land bank?

Mr. COREY. Yes.

Mr. MANSON. Now, the central land bank is not the land bank doing business, for instance, in New York.

Mr. COREY. I think, and the governor will correct me if I am not right in this, that in the last bond sale of \$75,000,000, which was held last Thursday, the bonds which were shipped to the New England States were indiscriminately collected from all points, were they?

Mr. COOPER. Yes.

Mr. COREY. I think that is the answer right there.

Mr. MANSON. What I have in mind is this: The State of New York has a statute which provides that savings banks of New York may invest in the bonds of the Federal land bank doing business in the district in which the State of New York is located. That is the substance of their statute.

Mr. COOPER. The central land bank would be doing business in all the States.

Mr. MANSON. But the central Federal land bank would not be a Federal land bank doing business in that district.

Mr. COREY. I have no doubt that the bonds would be recognized as legal investments.

Mr. MANSON. Under the statute.

Mr. COREY. There is no difficulty in that respect.

Mr. MANSON. If there would be no difficulty in that respect, why is it that the State of New York passes such a statute for the express purpose of excluding as investments of savings banks the bonds of Federal land banks not doing business in that district; in other words, instead of admitting all of your bonds into New York for savings banks investments, would you not be barring all of the bonds as savings banks investments in New York if you enacted this law?

Mr. COREY. By enactment of this law—

Mr. STEAGALL (interposing). Let me interrupt you?

Mr. COREY. Go ahead.

Mr. STEAGALL. So far as I am concerned, I would like to bar all of them if we are going to bar any, and I think that is what this will do.

Mr. COREY. Absolutely.

Mr. STRONG. Would it not rather have the effect of compelling the New York State Legislature to lift the ban?

Mr. STEAGALL. It will nullify their statute unless they amend so as to invest in all bonds, and the minute that thing is ever tolerated the cooperative feature of your Federal land bank system is destroyed, and it will destroy the whole thing.

Mr. COREY. That is the proper answer to the whole situation. Of course, it is idle to talk about the several Federal land banks marketing their own bonds—

Mr. STEVENSON (interposing). Mr. Corey, what is the idea about that? What is the necessity for rigging up so much machinery? The board here has been marketing those bonds and has been doing it successfully.

Mr. STEAGALL. And we have properly.

Mr. STEVENSON. Properly. Why can not the law be simply amended authorizing and directing that they sell all of the bonds and that they be designated as Federal Farm Loan Bonds and be the obligations of all the banks in the system?

Mr. COREY. I like this present amendment better than the one you suggest, because I believe that the responsibility of the marketing of the bonds should be placed upon the head of the 12 Federal land banks. They know the needs, and they should assume the responsibility for their several banks in pooling the bonds with the other banks, and that is what this bill does.

You speak about extensive machinery; I do not think this contemplates any extensive machinery.

Mr. STEAGALL. Let me ask a question right there. I like the purpose, I do not mind saving, sought to be accomplished by this amendment. I do not think it brings any substantial change in the practice now under way, which I agree with Mr. Stevenson is very proper and being very wisely handled. Why is it practicable for the presidents of the 12 land banks to maintain a central organization in Washington, where each of those presidents is supposed to transact official business? Will it not entail unnecessary expense, and is it not cumbersome from the point of convenience, on account of the distance of the various land banks from that central office in Washington?

Mr. COREY. I think not at all.

Mr. STEAGALL. Would it not necessitate the presence in Washington of the presidents of the various 12 land banks at frequent intervals?

Mr. COREY. The offerings of bonds occur about three or four times a year, and prior to the offering of any issue of bonds—well—or, let me put it this way, that at least three or four times a year the presidents are called into conference anyway in Washington with the Farm Loan Board.

Mr. STEAGALL. Do you not think, if we amend the law as provided in the various sections of this bill, that we will see a great expansion of the business of the banks and a large increase in the amount of loans involving, of course, a large increase in the amount of bonds offered and a more frequent issue of bonds?

Mr. COREY. Your first statement is correct—that this will expand the business by enabling them to serve more farmers.

Mr. STEAGALL. You would not contemplate, if this bill is enacted in its entirety, that there would be only three or four bond issues over a year, would you?

Mr. COREY. There might be only three or four bond issues in a year. Perhaps the amounts would be larger. The board could have just as easily marketed \$50,000,000 more of bonds in the last bond sale above the \$75,000,000. The market was not saturated at all.

Mr. STEAGALL. It would not be the practice—at least not likely to be the practice, would it, to issue bonds for funds to be used, spreading over a period of 90 days, would it?

Mr. COREY. Yes; ordinarily that is done now.

Mr. MANSON. That is what is done now.

Mr. COREY. There is an average of only about three offerings per year now.

Mr. STEAGALL. We are just getting started now, you know. We just got to going good right lately, and I should think with the volume of business that would be done and the amount of bonds that would be issued in a couple of years under the effects of this bill they would be selling bonds every 30 days practically.

Mr. COOPER. Mr. Steagall, if you will let me answer that: We make an issue of bonds to cover the needs of the banks for three months. That is based upon the sale of bonds during the previous three months, and then we always have to take care of the increase of that period. At the end of that period we know then what will be needed for the next three or four months.

Mr. STEAGALL. Your last issue was \$75,000,000, was it not?

Mr. COOPER. Yes.

Mr. STEAGALL. Suppose that your business should increase to \$100,000,000 a month, and so that you would have to market, say, \$250,000,000 to \$300,000,000 of bonds, you would not be prepared to offer those in lots of a hundred millions instead of such large quantities; you would be a little afraid to rush on the market a quarter billion dollars of bonds at one time, it would occur to me.

Mr. COOPER. If we ever get to where the market will not absorb more than a month's supply, and they reach the market limit—they will take on three months' supply anyway; they would take on \$150,000,000 right now at one time.

Mr. COREY. Another thing has been suggested which I think ought to be corrected. There never has been any denial to the Federal land banks of the opportunity to take as many of the various issues as they want to market over the counter in their particular districts; in fact, in 1919 for about five months the Federal land banks were invited to try out the suggestion on the part of a number of Federal land bank presidents that they go ahead and market their bonds. I took the responsibility of endeavoring to do that in the Omaha district, and I employed some high-class men to go out and endeavor to market our quota of the bonds. We scarcely paid expenses. That district which has 24 per cent of the agricultural land values of the Nation can not absorb any fair percentage of the bonds necessary for loaning purposes out there. But wherever the banks want to take any particular quota of a particular issue they have always been at liberty to do so and to make whatever profit they could out of it.

The next section: That is the amendment which provides "to liquidate indebtedness of the owner of the land mortgaged." This does not enlarge the purposes for which debts may be created, but makes it possible for the farmer already in debt to substitute for his present probably short-term, high-rate debts a long-time amortized loan. It does not matter how improvident the farmer may have been, he is entitled to the benefit of the security he offers, just as the business man, who perhaps has been no less improvident during the inflation period than the farmer, knocks successfully at the doors of the commercial bank, asking it to take care of his business mistakes. No restriction whatever is placed on such a borrower through the joint-stock land banks. Why should there be a restriction placed upon the borrower through the Federal land bank?

Mr. STRONG. It has been suggested here by some members of the committee that to enact that provision of the bill into law would enable farmers to go out and buy oil stocks and limousines and things like that that they do not think are beneficial to farming, and then use this system, which is assigned to promote the interests of agriculture, to liquidate the debt.

To my mind, I think the farmer, no matter how foolishly he may have gotten in debt, ought to be allowed to use this system to amortize and pay it off, as long as he furnishes the security. But some members of the committee do not agree with me, and I wish you would give us the benefit of your opinion.

Mr. GOLDSBOROUGH. Do you think he ought to use a Government system where the bonds are sold free from taxes for that purpose?

Mr. STRONG. The joint-stock land banks have the same tax-free exemption, and they are allowed to do it. Why should a private institution be allowed to make those loans but the Federal farm loan banks not be allowed to do so?

Mr. GOLDSBOROUGH. I do not know that the other banks would be allowed to do it; the joint-stock land banks.

Mr. STRONG. I am only trying to get the farmers who borrow under the Federal Farm Loan system the same privileges that other classes get in this country.

Mr. GOLDSBOROUGH. You will have this situation in this country. These city dwellers will come in and want the same sort of a system for apartment houses and everything else that is built in these cities. We cannot discriminate.

Mr. STRONG. I was only taking up the controversy in behalf of agriculture and I am going to ask Mr. Corey if he could suggest an amendment, as I asked Mr. Lever

to do, which would let the farmer now in debt have an opportunity to use this system, and yet not encourage him to go into wild speculation with the intention of borrowing from the system.

Mr. COREY. It is well to remember in that connection that this does not enlarge the purposes for which the loans may be made, in that it does not enlarge the purposes where the debt has not already been created. That is the answer to the suggestion of some who suggest that it practically abolishes a, b, and c of that section.

Section (d) makes it possible for the man already in debt—it is probably a high-interest bearing debt. Section (d) makes it possible for the men to liquidate that indebtedness, and our theory of that is that if a man has a debt on the farm that he ought to be allowed to liquidate it.

The tax-exempt proposition is not particularly applicable, because, as Congressman Strong suggests, he can get the same tax-exempt security benefit out of the joint-stock land bank if he is compelled to go into the joint-stock land bank system.

Then I think, too, Congressman, it is hardly fair to take the exceptional case where the man by subterfuge goes out and borrows money from a banker for an illegal purpose under the law and say that this is going to be the general rule.

Mr. GOLDSBOROUGH. If there is no general necessity for it, if it is not generally done, then there is certainly no necessity for amending the law.

Mr. COREY. I say there is a general necessity for it. But the complaint has been that he might get it for a wrongful purpose, for a debt not already created, by going out and doing the thing that he could not declare as a proper purpose under a, b, and c.

Mr. GOLDSBOROUGH. Do you not think, as a matter of fact, that the present law is a very wholesome restraint upon the farming community, and that it is undertaking to use what amounts to a governmental agency—to keep his operations within the limits of agriculture?

Mr. COREY. I cannot agree that this particular provision is a wholesome restraint. This farmer, Mr. Congressman, who had this burden of debt borrows of a country banker, who made the same mistake the farmer did, believing that farm prices were going to remain high, and extended an almost unlimited credit to this farmer on short term paper. That farmer has got that high-interest debt. Deflation came on. It precipitated deflation that ruined the farmer. He has got that debt to pay. Why force him, no matter if he did make a mistake, to pay a high interest charge upon that debt. Why not let him amortize it over a period of years at a low rate of interest?

Mr. COOPER. Have you seen any difference in letting that farmer who is already in debt, who incurred the debt for a foolish purpose,—where is the justice in allowing him to amortize his indebtedness and save his home and allowing some other person to buy that same farm under foreclosure and borrow from the Farm Loan System to consummate the deal?

Mr. GOLDSBOROUGH. There is every possible psychological difference which, to my mind, is the most important thing about the whole situation, that is, the restraint which the present law imposes upon the farmer and upon the scope of his operations, upon his mental attitude. You do not destroy that psychological situation simply because the mortgage is foreclosed and somebody else buys the farm who has to use this system.

Mr. COREY. I am not going to take the liberty of suggesting the amendment, but what would you think of this, Congressman, to meet the situation, which I think Congressman Wingo suggested? Suppose that you amended the law to read:

"To liquidate indebtedness of the owner of the land mortgaged, which indebtedness was contracted at least one year prior to the date of the application."

That certainly would prevent the use of the system for the creation of a new debt for an illegal purpose, would it not?

Mr. GOLDSBOROUGH. Personally, I am unalterably opposed to the use of this system for any other purpose except the purpose for which it was originally intended. That is my view about that.

Let him go and get his credit somewhere else and not get it from this governmental agency.

Mr. COREY. He is getting it through one governmental agency, the joint-stock land banks.

Mr. GOLDSBOROUGH. Then if the joint-stock land banks are wrong, let that be corrected. But the mere fact that you have got one wrong in it does not justify having two wrongs.

Mr. STRONG. What is wrong about it? Here is the farmer who has got in debt and who is a producer. Let him amortize his loan under this system. What is wrong about it; who is hurt?

Mr. GOLDSBOROUGH. It is not the question of who is hurt in the individual case.

Mr. STRONG. You say having one wrong does not justify having two wrongs.

Mr. GOLDSBOROUGH. It is not a question of who is hurt in the individual case. Of course, nobody is, because somebody has benefited. But what we do not want and what I do not want is to see this system absolutely destroyed, and that is what is going to happen.

Mr. STRONG. How can that destroy it?

Mr. GOLDSBOROUGH. It destroys it, because you are taking away one of the most meritorious features?

Mr. STRONG. What is that?

Mr. GOLDSBOROUGH. Why, letting these loans be made for strictly agricultural purposes, in which the whole country is benefited; and you are making your system a target of attack by interests who are opposed to it anyway.

Mr. STRONG. Mr. Goldsborough, does it not carry out the very foundation or principle for which the farm loan system was established, when you help the farmer in debt to amortize his loan and go on continuing to be a producer? Here is a farmer who is in debt; he is a good producer; he has placed a mortgage on his farm. You say to him, "You can not come under this system and amortize your loan and pay it out." If you do let him pay it out, he will continue to be a producer. But if you refuse him, he may have his mortgage foreclosed.

Mr. GOLDSBOROUGH. We are not here, as I understand it, in this Congress, to enact laws to cover any individual case.

Mr. STRONG. I can not see any difference as to the benefits of agricultural production, whether you loan money for a farmer to buy a farm or whether you loan money to a farmer who is in debt to keep it.

Mr. GOLDSBOROUGH. You do not think it is any benefit for the agriculturalist to understand thoroughly that the only way he can borrow money through this governmental agency is to tend to his farming business and keep clear of wild ventures. You do not understand that; it is not clear to you?

Mr. STRONG. Yes, sir.

Mr. GOLDSBOROUGH. It is perfectly clear to me.

Mr. STRONG. It is perfectly clear to me also. And I can not see the difference between saying to a farmer who has not money enough to buy a farm, "We will let you have half the money"; and saying to the farmer who has mortgaged his farm for half its value, "We will let you amortize your debt and pay that money off." What is the difference in permitting a loan to a farmer who wants to buy a farm or one who wants to keep a farm. That is what I can not see.

Mr. MANSON. Mr. Chairman, I think I might make a suggestion there. It seems to me if this section were amended by adding to it as it stands "incurred expense by operation of the farm by the owner," that that would take in the largest class of farmers who have got into debt during the agricultural operations, although the debts were not incurred for one of the purposes for which loans can now be made; in other words, using agricultural operations in the larger sense. It seems many of them have gotten into debt because they mistakenly held their crop when they had better have disposed of it.

Mr. STRONG. Here is the case. Suppose the man put the mortgage on his farm for some purpose foreign to agriculture and has to sell it, and he sells it to a man who wants to mortgage it for the present indebtedness. Should he not be allowed to do so under this system?

Mr. MANSON. I am not attempting to pass judgment on that. It is enlarging the scope of the system very largely.

Mr. STRONG. I would like to take care of all the good farmers in the United States who want to come under this system.

Mr. GOLDSBOROUGH. The difficulty about that, as I see it, is this, that when you take care of a man to the extent that you inflate his credit, whether you are doing him any permanent good or not, I do not know. I doubt it very much. There has been a good deal of that going on in the last two or three years.

Mr. STRONG. I do not think you would hurt the good farmer much by inflating his credit, because you did him so much damage by deflating it.

Mr. COREY. Now, referring to the section providing for the appointment of agents—the present agency provision—

Mr. STRONG (interposing). I did not mean to address that to you, Mr. Goldsborough. I mean the public at large.

Mr. GOLDSBOROUGH. Oh, no; I know you did not mean it personally.

Mr. COREY. Referring to the agency provision as it is now in the Federal farm loan act: No agency can be created except the agency be a bank, trust company, or farm mortgage company.

This agency is also required to indorse the loan and become liable for the default of the mortgagor. The mere statement of the provisions of the present act itself

affords answer to the reason that this agency provision, to be workable, must be amended, because, as you know, the average bank, trust company and farm mortgage company for the small amount of compensation involved, even though it were permitted to do so by the laws of the State or the National banking act, would not in-dorse such loans.

There are these conditions, gentlemen, which make this agency provision necessary. I will recite them briefly, because they have been covered quite fully:

First, the associations do not seek to serve outside farmers, that is, some of them do not. An association like the association which Mr. Mornin here of Cedar Falls, Iowa, represents will continue in existence, no matter how many agencies are appointed. He has made through that association \$1,200,000 of loans. In many other parts of the State of Iowa and throughout the rest of the district they are not active like his association is; they are not serving the farmers; they are making no effort to serve them, and for such a secretary-treasurer or for such an association we want to be able to put an agency alongside the association to serve the farmers, not now being served.

Then in some parts of the district it has been found rather impracticable. For some reason individual farmers wishing to borrow have not been able to get the 10 farmers in to form an association.

It is contended that the provision for liquidation of associations, of which I did not speak particularly, and the appointment of agents—that if those provisions are incorporated in the act there will be no associations in less than two years. There will be plenty of associations. However, if the associations are not any more faithful in attending the meetings than they have been in the past, there would not be any more than 10 per cent liquidate, even though they thought it was to their advantage to liquidate. All of the associations, gentlemen, which want to continue in business will continue in business, because they liquidate only upon two-thirds vote of the stockholders. There is nothing compulsory as to liquidation on this at all.

Then another condition has arisen, and this is true in a good many associations, unfortunately, not so much in my district, perhaps, as in some other districts. It is unfortunately true that the dividends declared by the Federal land banks oftentimes have not reached the individual borrower; they have been absorbed in association expenses, etc. If an association in view of that situation wants to operate through an agency provision, why should not they be permitted to do so? If in the judgment of the farmers they can best serve their own interests and best serve the needs of the men not yet members of the association, or, rather, not yet borrowers from the system, if in their judgment they can best serve them through agencies rather than associations, why should they not be permitted to do so?

Mr. GOLDSBOROUGH. Why can not the original act be just amended in a few words to take care of situations of that kind?

Mr. STRONG. Have you something to suggest, Mr. Goldsborough?

Mr. GOLDSBOROUGH. No, sir.

Mr. COREY. I reach now the last provision suggested by these amendments.

Gentlemen, so far as this last provision is concerned, in the first year of experience the Federal land banks and the Farm Loan Board and the Federal land-bank presidents determined that the system was not functioning adequately for American agriculture, because in the first annual report the Farm Loan Board recommended that the loan limit be increased from \$10,000 to \$25,000.

There is this class of men—I think everybody upon this committee will agree ought to be served—that every average farmer operating a standard or average farm or ranch unit ought to be permitted to become members of this Federal land bank system. The Federal reserve system does not seek to make a system composed of weak banks, but it affords the opportunity to the strong banks, as well as to the weak banks, to become members of that system. You cannot build up a farm loan system which shall endure permanently which is based upon the smaller, weaker securities in the nation.

It has been suggested that we are particularly interested in the Corn Belt farmer, and the question was asked here sometime during the course of the hearing, or the suggestion made, "Well, let the other farm loan agencies take care of the Corn Belt farmer." They can take care of him. But the net cost of taking care of that kind of a farmer means a loss to agriculture. If this farmer goes to the joint-stock land bank to get his loan, it means, when consideration is given to the dividends, that he will pay approximately one per cent per year more for his loan. Now, why not allow the man who needs \$25,000—who is not a land baron by any manner of means—to borrow through this system? He is operating the only kind of a unit which can be successfully operated in Illinois, Iowa, South Dakota, and Nebraska, and in some parts of Indiana and Wisconsin—why not allow him to come in under this system and borrow, he being nothing more than an average farmer?

Take particularly the ranchman—and this statement applies to all of the ranch districts of the United States; it applies to about half of our district—the western half of Nebraska, and South Dakota and the whole of Wyoming; it applies to western Kansas, Colorado, Idaho, Montana, and New Mexico and the other sections of the country which are known as the ranch territory of the United States. You say "Let the joint-stock land banks go there and take care of them," or you say "Let the farm mortgage companies take care of them." Neither class will go there and take care of them; neither class have gone there and neither class will go there, except they charge an excessive interest rate.

Mr. STRONG. That is true.

Mr. COREY. The herds of western Nebraska, Kansas, and Wyoming and Montana—and I speak particularly of this, because we know of that situation—were seriously depleted at the time of the deflation. You can ride for miles in this territory now and see very few cattle; and that has been the condition for the last two years or more. Not to restock this range is a serious economical waste, which more or less reacts on the United States as a Nation.

Gentlemen, one of the greatest needs in America to-day is the refinancing of the cattle interests of the West. If they are being financed at all to-day, they are being financed ordinarily on their farm loans at rates of interest approximately three per cent more than the rate at which they can borrow those funds under the Federal farm loan system.

These are not cattle barons; these are not great ranch owners. These are the men who a few years ago were homesteaders out there and who have gradually added to their holdings until they have a proper sized standard economical farm ranch unit; and that class of men must borrow from \$20,000 to \$25,000 to properly finance themselves. They should utilize their lands for credit and we can let them have that money at 5 or 5½ per cent, if you will open the doors to that class of borrowers.

I have here some figures which are typical of the average county in the Corn Belt of the United States. This covers Taylor County, Iowa, listing the number of mortgages amounting to more than \$10,000, filed in that county during the last five years, these mortgages running to insurance companies and the companies in the farm mortgage business. There were 158 of these mortgages filed in that county, totaling \$2,675,673, or an average of \$16,934; covering the same period of time in the same county there were 262 loans, each loan in excess of \$10,000 filed in favor of mortgages other than Eastern loan or insurance companies. The 262 loans totaled \$4,597,780, an average of \$17,556 per loan.

Mr. STRONG. Who were the people who made those loans?

Mr. COREY. Well, they were local agencies, etc., but the complete listing is of those Eastern insurance companies and so on, regularly engaged in the farm mortgage business.

Now, in that one county there were 400 men operating the ordinary necessary sized farm units who are denied the opportunity to participate in this system, and that is more or less true in many of the States of the Middle West.

I want to hand to each of you, so that you may follow it, a pamphlet which was issued by the American Farm Bureau Federation, entitled "The Loan Limit for Federal Land Banks should be increased to \$25,000." I will not go into that in detail, because upon reading the record I find that Congressman Towner offered it as a part of the record.

But I particularly call your attention to Appendix I, which lists all the States of the Union, gives the number of farms, the average acreage per farm, the value of all the farm property in that State, the average value per acre of land and buildings, and the number of farms exceeding a certain acreage; and the computation of that acreage is to include only such farms which would, multiplied by the average value per acre, make the farms exceed in value \$20,000.

As you run that down you will notice that the State of Arkansas, for example, has only 1,597 farms which are worth more than \$20,000; that the average acreage per farm is only 75, and that the average value per acre is only \$43. I conceive that if this question involved only a State like the State of Arkansas there could not be any particular concern about only 1,500 farmers who could not enjoy the benefits of the act, although I see no real reason why those 1,500 farmers should not be permitted to come into the system.

But you go to California, and you have approximately 24,000 farmers there who are barred. You have 27,000 in Indiana; you have 141,000 in the State of Illinois; you have in the State of Iowa 152,842 out of a total of 213,000 farms that are barred from membership in the Federal land banks if they utilize their land security up to its full value.

I think you will find that of interest—I will not read further—as a demonstration of the fact that in the greatest agricultural territory of the United States the Federal land bank system is not operating adequately to serve the farmers of that territory.

The only argument offered against the amendment to the Federal farm loan act, providing for the increase of the individual loan limit from \$10,000 to \$25,000, is that the inclusion of the larger loans will be detrimental to the small farmers.

It is generally conceded that there are tens of thousands of farmers who need loans in excess of \$10,000 through the Federal land banks. If these farmers can be served without disadvantage to the smaller landowners, it is admitted that the system should be adapted to care for their needs.

It is contended, first, that the original purpose of the farm loan act was to take care of the small farmer, the one who at that time did not have access to credits through farm mortgage companies. While this may have been and perhaps was the fundamental purpose in the enactment of the farm loan act, this in itself is not an argument against the enlargement of its purposes. Admittedly, the small farmer now, as then, must be cared for. If this increase of loan limit will destroy the market for the smaller farmers' securities, it should not be passed. If, however, the adoption of this amendment will not work a denial of the continued benefits of the system to the small farmer, then for the sake of the middle-class farmer, who is now in dire distress, the act should be broadened to care for his needs.

The Federal farm loan act is one of the great constructive legislative acts in the history of congressional legislation. The act has been of great service to American agriculture, but there is nothing sacred about its provisions. If, after five years of administration, experience has demonstrated the necessity of amendments they should be adopted. Nobody would suggest that the act of Congress, providing for the use of the funds of the War Finance Corporation to finance the agricultural interests during the deflation period of 1921, was consistent with the original purposes of that act, yet in view of the dire emergency Congress performed a great service for agriculture by making these funds available for the distressed farmers. Nor will it be suggested that the plan for amendments to the Federal reserve act, to provide a system of intermediate credits, is entirely consistent with the original thought of the farmers of the reserve act, yet there is nothing sacred about the reserve act and if it can be broadened to make it more serviceable to another and most important class in America, then the objection that it is inconsistent with the original thought and purpose of the law becomes no longer a convincing one.

The 1920 census figures show that there are several hundred thousand farms in the United States which are valued at more than \$20,000. Among the States which have a large number of such farms are California, with 23,000; Idaho, 10,000; Indiana, 27,000; Illinois, 141,000; Iowa, 152,000; Kansas, 53,000; Kentucky, 10,000; Minnesota, 59,000; Missouri, 25,000; Nebraska, 41,000; New York, 10,000; North Carolina, 22,000; North Dakota, 24,000; South Dakota, 44,000; Texas, 23,000; Washington, 12,000; Wisconsin, 30,000. Every State in the Nation has a large number of farmers operating units valued at more than \$20,000. These farmers are the most distressed of all to-day. Holding as they did standard farm units, successful as they were in farming operations, they enjoyed during the boom period extensive credit based upon commodity values they and their bankers believed to be reasonably permanent.

When deflation came and farm commodity values fell to a ruinous level, these farmers found themselves confronted with an immense burden of debts contracted during the period of easy money, which must be paid out of commodities which have so depreciated as to scarcely pay the interest and taxes upon the land. Why should relief be denied these men? There is only one salvation for them. It is the mortgaging of their farms or the renewing of the present mortgages upon their farms over a long period of years at the lowest possible net cost, to enable them to postpone the payment of their debts until during the course of the years farm commodity prices are restored to the normal level.

How properly to care for this class of farmers is the most important credit problem confronting Congress today. That they should not be financed to the detriment of the small farmer may be conceded. That they should be financed along with the small farmer ought likewise to be conceded by every friend of American agriculture.

It is suggested that the farmers of this class can be cared for by the joint-stock land banks. There are two answers to this argument. First, the joint-stock land banks do not and they will not serve the farmers and ranchmen in the poor land sections of the country where loans can not profitably be made. Joint-stock land banks are operated for private profit and will not incur the expense of the profitless business of certain sections of the country. It is the boast of the joint-stock land banks that they do not make their loans in this territory. Reference is here made to the announcement issued by C. F. Childs & Co., one of the largest bond houses in the country, dated May, 1922, advertising joint-stock land bank bonds, in which the banks declare that they make loans only in the best agricultural sections of the country.

For example, the Iowa Joint Stock Land Bank advertises that it will make loans "only in northwestern Iowa and southeastern South Dakota" and the Fletcher Joint Stock Land Bank of Indianapolis in the "black-land belt of Indiana and western-central part of Illinois." The First Joint Stock Land Bank of Chicago "the northern two-thirds of Illinois and selected counties in Iowa." The Arkansas Joint Stock Land Bank in "eastern Arkansas, the delta section, and west Tennessee." The Lincoln Joint Stock Land "throughout Iowa but sparingly in extreme southern and eastern portions and the eastern half of Nebraska." The First Joint Stock Land Bank of Minneapolis in the "southern central and northwestern Minnesota and northwestern Iowa." The First Texas Joint Stock Land Bank of Houston, which included Texas and Oklahoma, "not making loans in Oklahoma. Loans made throughout Texas but principally in black-land belt from Dennison to coast. Occasionally make loans in other sections where well secured."

These are illustrative of the joint-stock land banks. The Federal land banks have gone and are prepared to continue to go into every county in the United States to make loans. They can not compete with the joint-stock land banks or farm mortgage companies for loans in excess of \$10,000. This affects the rate in the best agricultural sections. In the stock-raising territory of the Nation, where the joint-stock land banks generally advertise they will not make loans at all and where other loan agencies make loans only at excessive rates, the situation of the ranchers is most distressing. We should unshackle the Federal land banks to permit them to care for this class of farmers and stockmen.

For another reason it is no answer to say that the joint-stock land banks satisfactorily take care of loans in excess of \$10,000. The rate of the joint-stock land banks is, on its face, one-half of 1 per cent higher. When consideration is given to the dividends which have been paid and which will be paid, the difference in net cost is approximately 1 per cent. For example, a Federal land bank in the Middle West is paying regularly 10 per cent annually in dividends. This difference of 1 per cent in rate means an annual saving in the interest charge upon the farmer on a \$25,000 loan of \$250 per year. Why should he not be allowed to make this saving?

Experience has demonstrated that whatever may have been the original purpose of the farm loan act, the Federal land banks can be of service to all the farmers rather than a limited few.

But it is suggested that there is a limit to the capacity of the bond market to absorb issues of Federal farm loan bonds. The experience of the Federal Farm Loan Board in the sale of the recent bond issues demonstrates that a practically unlimited amount of bonds can be marketed. Suppose these loans in excess of \$10,000 are written by the joint-stock land bank. They sell these bonds in the same market with the Federal land banks. If the joint-stock land banks can market the bonds to take care of the loans in excess of \$10,000, the Federal land banks can market bonds based upon the same class of loans in the same market. They can market a more attractive bond more favored by the bond investor at a lower rate, and a consequent lower rate to the borrower. Why not give the farmer the benefit of this lower rate instead of forcing the marketing of a higher rate bond through the joint-stock land bank, and the giving to the joint-stock land bank a profit upon loans which might be made at net cost through the Federal land banks?

Will service to these thousands of distressed farmers who are now knocking at the doors of the Federal land banks impair the value of the system to the small farmer? The broadening of the system will unquestionably benefit the small farmer.

The Farm Loan Board in its creation of the 12 Federal land bank districts, in so far as it was practicable, wisely combined poor land and richer land territory within the same districts. Due to this fact, the Federal land banks of each district have made loans in certain parts of their districts without profit, while the larger loans in the richer sections of the district have been so profitable that both those having the larger as well as the smaller loans have enjoyed a low net rate and substantial dividends. The overhead cost of making the loans of \$25,000 will be no greater than the making of \$500 loans. Since the farm loan act provides for a distribution of the profits of the system, the small farmers as well as the large will profit by the inclusion of the larger, more profitable loans.

The ability of the system to function permanently and to furnish funds at very low rates is dependent upon the attitude of the bond investing public. A system which was based entirely upon loans written in the poorer sections of the Nation, could not continue to command a low bond rate. Because of the experience of the farm mortgage companies in much of the territory into which the Federal land banks have gone, from a conception of their duty to render a public service to agriculture, it is certain that, standing alone, the bonds based upon such securities would not have commanded a favorable rate in the bond market, but since the Federal land banks

have maintained a fair balance of the best securities of the country, the confidence of the investing public has been impressed. We must continue to hold a fair balance of the best securities in the best agricultural States of the country.

The continued growth of the joint-stock land bank system is demoralizing the secretary-treasurers in many of the best States. The demand for loans in excess of \$10,000 is so great that secretary-treasurers prefer to represent the joint-stock land bank through which they may serve both the small and the larger borrowers. In the eighth Federal land bank district, for example, comprising the States of Iowa, Nebraska, South Dakota, and Wyoming, the increase in business of this bank in 1922 was as follows: Iowa, 21 1/2 per cent; Nebraska, 33 1/2 per cent; South Dakota, 43 1/2 per cent; and Wyoming, 124 per cent.

Iowa is the richest agricultural State in the Nation, having an agricultural wealth of over \$8,000,000,000, or approximately one-ninth of the Nation's entire agricultural wealth. It is important to the Federal Land Bank of Omaha and to all of the other banks of the system that this decline in the volume of business in a State like Iowa should not be permitted to continue. The same may be said of a number of the other banks. In fact, if the Federal land banks are to be of the greatest possible service to average farmers as well as to small, the loan limit must be increased to \$25,000. The denial of these loans to average farmers is wrong. He is entitled to cooperate with his fellow farmers in this system, and the small farmer will unquestionably profit through the inclusion of the larger farmer.

Congress is, we believe, sincerely desirous of legislating a practical program for the relief of the farmers. Without disparagement of any other program now under consideration, we who have been more intimately in touch with agricultural conditions unhesitatingly say that, for practical and general relief to the farmers, this measure is second to none.

There has been and now is a marked division of sentiment as to the best plan for adoption by Congress among many other rural-credit measures. Various farm organizations are not agreed upon the program. But there is absolutely no division of sentiment as to the amendment for the increase of the loan limit to \$25,000 among those who are authorized to speak for the farmers. Every farm organization has indorsed the increase of the loan limit, including the American Farm Bureau Federation, the National Farmers' Union—both of which adopted strong resolutions at their national conventions held last November—the Cooperative Marketing Organization, which met in Washington December 15; the National Board of Farm Organizations; the Equity and the Grange; and all other similar farm organizations. These organizations include large and average and small farmers. They are representative of the agricultural interests of every State. They have expressed no fear that the increase of the loan limit will harm the small farmer. This is a matter of concern only for other institutions making farm loans in competition with the Federal land banks. The unanimous voice of organized and unorganized agriculture is now and has for the past four years been raised in support of the increase of this loan limit. Who better understands the needs of the farmers and can better express their views than these great farm organizations with a membership of practically 5,000,000 farmers?

The conditions demand the passage of this legislation not several months hence but now. Great as were the benefits from the operations of the War Finance Corporation, it would have been very much more beneficial if it had begun its operations six months earlier. Farmers and stockmen were being forced into liquidation and bankruptcy by the thousands. The War Finance Corporation performed a wonderful service for agriculture, but the service came too late for many thousands.

So with this legislation. March 1 is farm-mortgage time throughout the entire Middle West and in some other sections of the country. This is the date when farm mortgages are generally written or must be renewed. This bill will be of vastly greater help to the farmers if it is promptly passed by Congress to enable the banks to prepare their forms and take care of these loans on March 1.

The increase of the loan limit is absolutely necessary to the practical and beneficial development of more than half of the banks of the system. All of the banks are mutually interdependent. They mutually guarantee all the bonds. What aids one Federal land bank will aid all of them. We have argued for this increase of loan limit since it was demonstrated in the first year of the operations of the system that the present limit is inadequate. Congress is fully informed, and we believe that it can perform as great a service for agriculture through the rushing of this bill through as a emergency measure as it did when it enlarged the purposes of the War Finance Corporation to stop the precipitate deflation which was bringing ruin to so many thousands of farmers.

I have just a few more words in behalf of the whole bill. Gentlemen, you had participating in the writing of this bill men who have for six years honestly and

efficiently managed this system. I undertake to say that the record of the Farm Loan Board in the administration of the farm-loan system is the greatest achievement of any board which has operated since the Farm Loan Board was organized. They have an eye single to the public service which can be performed for the farmers of America. I think the same may be said of the administration of the 12 Federal land banks.

Gentlemen, you have, as opposed to their practical conclusions, you have as opposed to their practical experience of six years, a recitation of what theoretically ought to be done with this system, a recitation of what Germany has done in the years past. It is true that when this act was written the experience of Europe was all we had to rely upon, and it was well to follow that experience in so far as we could. We now have our own practical experience; we have a system managed by practical men, who want to serve the farmers, and, I say, as against the theoretical conclusions of the opponents of this bill—the only men who are interested in any political agitation at all with reference to this measure—as against their conclusions. Why not accept the conclusions of the hundreds upon hundreds of secretary-treasurers of the farm-loan associations, who are working in harmony with the Federal Land banks and the Farm Loan Board; and why not accept the conclusions of the Federal land-bank presidents and the Farm Loan Board, who have given their conclusions from the ripe experience they have had in the operation of this system from a practical standpoint for the past six years?

It seems to me, gentlemen, that there is not a provision in this bill which will not aid in doing the thing in which I am sure all of you are interested—that is, to unshackle the system and shorten the gap between the farmer and the money that he must have to finance his operations, to take away the red tape and make it an instrument of real service for all of the farmers of the Nation. And I believe, gentlemen, that with the careful consideration which you will give this bill you will conclude that in each and all of its provisions it is destined to be of real service to the borrowing farmers of America.

MR. STRONG. Gentlemen, it is now 5 o'clock. What is your suggestion?

MR. GOLDSBOROUGH. I move that we adjourn until to-morrow morning.

MR. STRONG. Without objection, we will now adjourn until 10.30 o'clock to-morrow morning. I hear no objection.
(Thereupon, at 5 o'clock p. m., the committee adjourned to meet Thursday, January 11, 1923, at 10.30 o'clock a. m.)

COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Thursday, January 11, 1923.

The committee met, pursuant to adjournment, at 10.30 o'clock a. m., Hon. James G. Strong presiding.

MR. STRONG. The committee will be in order, and we will first hear Mr. Silver.

STATEMENT OF MR. GRAY SILVER, REPRESENTATIVE OF THE
AMERICAN FARM BUREAU FEDERATION, WASHINGTON, D. C.

MR. SILVER. Mr. Chairman and gentlemen of the committee, in speaking to this bill offered by Mr. Strong, I want to emphasize the fact that more important than the exact and minute details of how it is done is quick action, in order that the people who are so badly in need of this service can be given relief or opportunity for relief by the settlement dates of March 1 or, in some sections, April 1.

MR. STRONG. What you mean, Mr. Silver, is that throughout the Central West at least a great many of the mortgages are made as of the date of March 1 and settlement made at that time; and if the people who want to make loans are to be accommodated this legislation ought to be passed as early as possible that they may be able to take advantage of it and make all commitments by March 1.

MR. SILVER. You stated it better than I could. That is just exactly the purpose of it. There may be things in this bill in the way of terms that are debatable, not debatable from the effect, but the different viewpoints of different men wanting to accomplish the same thing, because I think all of us want to accomplish the same thing.

The farm loan system has not heretofore been able to function, as it was originally intended, for the lack of certain latitude which this bill sets out to give in its activities, with the result that many, many farmers were denied loans, not because of the board and not because of anybody intended it, but because there was not a sufficient leeway in the law under which they were operating to serve these people.

Since the passage of the law we have had a definite opportunity of trying out and applying the terms of this law, and how it applies in practice—not in theory only, but in practice; and certain features have been incorporated in this bill believed to be helpful, and to more nearly, if not fully, make the bill accomplish the purpose for which it was actually originally intended, namely, to be the instrumentality for long-time loans—long-time invested capital, if you please—for agriculture. That is the purpose of the bill.

I know that when the original fight was made in Congress, if I might use the word "fight" for the passage of this bill, it was at first proposed that the maximum loan be \$2,000, afterwards \$2,500, and later on \$5,000, and was finally compromised at \$10,000. The farmers at that time realizing that \$10,000 was not a sufficient limit, but accepting that compromise in order that something might be passed that would be a step in the right direction, that would be helpful, and which was helpful.

Mr. STRONG. Of course, Mr. Silver, this legislation creating the farm loan system was passed long before I came into Congress; but, imbued with the idea that the small farmer should be helped first, I was rather slow to adopt the suggestion of increasing the amount, and a couple of years ago when we had a bill before the House amending the Federal farm loan system, an amendment was made to increase the limit to \$25,000, which I opposed upon the theory that we were having a hard time then to get sufficient capital to meet the requirements and to serve the men who were filing applications for loans, and I thought that until we served the fellow needing the small loan, who does not necessarily get the consideration that the fellow applying for the big loan does, we ought not to increase the amount, as I felt that we should serve five men with \$25,000 by making loans of \$5,000 each rather than one.

But conditions have since changed that have convinced me that we ought to increase it; we can now get the money for the larger loans as well as the smaller ones. But there is considerable opposition still and some members of the committee are halting in their opinion as to what is best to do; whether or not the need of \$25,000 loans is urgent enough to adopt the amendment proposed in the bill; whether or not the man who needs the loan of \$25,000 should have this governmental agency assist him to get it.

I just suggest that to you because you have been away from the city and have not heard the evidence before the committee, and I thought you might like to address yourself as to whether or not there was a need for \$25,000 loans. I know some of the members of the committee would like to have all the information they can get upon this question.

Mr. SILVER. Permit me to say right here that by giving my testimony I do not mean to criticize any member of the committee for his viewpoints or his activity, or the other gentlemen who have had to do with it; I am testifying as representing the group I do, with their viewpoints.

Mr. STEVENSON. If you will permit me, I will say to you, on the particular question you are now discussing, that I believe that all of the people who have been here, with possibly one exception, have been advocating an increase of the maximum limit. It is only the question in the minds of the members of the committee themselves as to what should be done about that, as to whether we should put this institution in the position of being a mere farm loaning institution rather than an institution to assist the small farmer to become a landholder. A good many of us debated very strongly with some of these gentlemen the necessity and the policy of increasing the limit at least as much as they suggest; and it is no criticism, you are certainly not criticizing any of the other gentlemen who have testified, because they are all of that opinion. But your purpose now is to convince the committee of pretty hard-headed men that it ought to be done, because they are the folks who are raising the question.

Mr. STRONG. And I made my suggestion because I want to urge you to do so, if possible. [Laughter.]

Mr. MANSON. If the committee could agree as well as the witnesses could on that point, we would not have any trouble.

Mr. STRONG. I have had no opportunity to coach the witness. [Laughter.]

Mr. SILVER. I know of no better way to convince the jury than for all the witnesses to be in accord on the main points.

Mr. STEVENSON. There are some exceptions to that.

Mr. SILVER. As I said just a moment since, the farmers did not believe that when the bill passed that there was sufficient leeway, in consideration of the increase in values and the increase in need, for at the time we were advocating the passage of the bill, and I was one of the committee representing the farmers who appealed here, it was possible throughout the country to get money—long-time invested capital, such as we are discussing here—from neighboring farmers. That condition existed from the early days in this country on down to recent years, that it was possible to get money from a neighboring farmer or other neighbor. That followed on up until the canvass of the country for the Liberty loan, a patriotic purpose; but when we

went through the country with a fine comb, every place we took money out of the rural home and got it in Government securities—a proper and worthy thing—it at once prevented the farmer being able to get accommodations where he had so often in days gone by been able to get them.

Consequently, he had to turn to some new instrumentality, some new source of money.

It takes three kinds of money to finance the farmer—one is access to banks of deposit for short-time accommodations, another is the intermediate credit which the committee has heard so much of, and the third is the long-time invested capital he must have if he is to be a landowner. And, let me say this: It takes no more money and no more credit to finance agriculture—and I speak of big agriculture and little agriculture and all agriculture—through this instrumentality than any other way. The difference is that through this instrumentality he is protected from burdensome charges of the commission and brokerage and other expenses that are put onto it, which is applied outside and not inside. This law is a protection against it. But as to the credit and as to the money, it does not deplete the national reservoir of moneys and credits, not one bit more, if it is done through this instrumentality than if it is done through another instrumentality. Nor does it take any more to finance agriculture; it simply takes so much money to finance agriculture, and if we do not finance agriculture and it does not prosper our country is in an unhappy situation and is headed for trouble rather than for better times.

Mr. STEVENSON. You are speaking of financing agriculture. It is not contemplated that we finance agriculture, except to the extent of providing a long-time loan that is necessary to provide the farmer a way of escaping the danger of being ejected because he can not save his place.

Mr. SILVER. I am speaking of the long-time loans. I tried to eliminate the others by going on down to the long-time loans. I want to emphasize, and I want to impress upon any man who thinks that the limit should stop—I do not care whether he says at \$10,000, \$15,000, \$20,000, or \$25,000—agriculture must be financed. There is nothing so basic, nothing so vital, nothing so far-reaching in its effect as financing agriculture. If agriculture does not go, it at once dams up clear down the line and everybody is unhappy. It is not peculiar to agriculture; it is peculiar to the needs of the basic industry of our Nation.

So that when anybody suggests that we are not going to finance beyond \$10,000, or some other figure, they fix in their mind as having reached a proper place; they have lost sight of the fact that the farms that can be financed with \$20,000 maximum are not the farms that produce the surpluses.

Mr. STRONG. The \$10,000 loan finances a man who has a farm in a community of low or very reasonable priced land, but it leaves the farmer in the community where the land is high priced subject to the same troubles that the little farmer had before this system went into effect?

Mr. SILVER. Exactly right, and you are not financing agricultural production when you talk about a \$10,000 loan.

Mr. STEVENSON. This is not a scheme of financing agricultural production; it is a scheme for furnishing capital the thing out of which to produce. When it comes to financing agricultural production, it varies enormously in different sections. It costs a lot more to produce an acre of cotton than it does to produce an acre of wheat. The financing of agricultural production is this short-time financing, and it is an exceedingly important matter.

Mr. SILVER. You misunderstood my application. I did not mean, nor do I mean in using the expression to confuse it with other financing. I tried to eliminate those two. I did mean this, that if the long-time invested capital is not forthcoming at the right time and foreclosures are permitted—I do not care whether it is a little farm or a big farm—you can not keep up your sequences in production, for if the farmers are going out by the million—and they are if not financed, that is a direct injury to and curtails production, and less production is available for public uses. That has nothing to do with the particular financing of production, but it has to do with continued service, and that has to do with the amount of production.

Mr. STEVENSON. It has to do with his plant.

Mr. SILVER. Right.

Mr. STEVENSON. Of course, if he has not a plant, he can not operate.

Mr. SILVER. That is correct.

Mr. STRONG. Is it not true that if the farmer on expensive land, under present conditions, can not be financed at a low rate on the amortized plan, the tendency is for him to sell out his farm and get out of the business, put his money into other kinds of endeavor? Is it not to the interest of production and agriculture to keep the farmer, who has built up an expensive plant, in the business?

Mr. SILVER. There is not a bit of doubt—
 Mr. STEVENSON (interposing). Let us get right down to brass tacks on this proposition. You have heard the testimony of everybody here that Iowa and Nebraska are the places where the protective economic unit is probably the most expensive. Of course, in some little truck-farming sections it is a little higher.

Mr. STRONG. In my own district I have a lot of land worth \$150 and \$200 an acre.
 Mr. STEVENSON. I refer to that immediate territory—Iowa, Kansas, Nebraska, Illinois, and Wisconsin.

Mr. STRONG. And Indiana.
 Mr. SILVER. And you can go over into other States. You can go into the Shenandoah Valley of Virginia, and you can find it also in Maryland and in New York, though not in the same quantities as in the other States. But you find it there.

Mr. STEVENSON. I am talking about the testimony produced in this whole hearing to the effect that Iowa was really the heart of the high-priced agricultural productive section.

Mr. SILVER. From the fact that it has less waste land than any other State in proportion to its total area.

Mr. STEVENSON. And the testimony is all practically by nearly everybody that the economic unit of the farm there is 160 acres, and that the value of lands runs from \$200 to \$500 an acre; is not that right?

Mr. SILVER. The Government recognized that as the economic unit based on keeping the family together until it reached maturity at the close of the Civil War, when they developed that great West. Now, then, with the coming of motorization of the farms, that unit is enlarging.

Mr. STEVENSON. They, you are decreasing the number of farmers. Whenever you begin to enlarge the unit and decrease the number of people you will employ, then you are decreasing the number of farmers. That is economical, that is right. It is not the number of farmers; it is what the farmers produce that makes the country go.

Mr. COREY. The economic unit in the State of Iowa is from 200 to 240 acres; the actual unit, that is, the actual acreage of the average farm today in the State of Iowa is 159 acres and a fraction. But you should not apply those figures at all to the entire western end of the eight Federal land bank districts; that is the ranching section, where the economic unit runs into many hundreds of acres, and probably it is nearer 2,000 acres.

Mr. STRONG. That is where our supply of beef and mutton comes from.

Mr. STEVENSON. It does not run as high per acre there.

Mr. COREY. It does not run as high per acre there, but you cannot successfully operate a ranch of a moderate average size in any part of the cattle sections of this country on any basis less than something like \$25,000, Mr. Stevenson. The statistics will show that.

Mr. STEVENSON. Well, if it is \$25,000, and he gets \$12,500—

Mr. COREY (interposing). I say you can not finance it on less than a \$50,000 or \$60,000 unit.

Mr. STEVENSON. I want to do all I can to help out the economic situation without disturbing what we conceive to be the proper function of this law. Mr. Lobdell testified that they made a rule that they would not loan anybody more than \$100 an acre in Iowa. You take the 160 acre unit there, and loaning \$100 an acre would be \$16,000. Is not that a pretty fair average?

Mr. SILVER. The board might see its way clear to revise the rule sometime as the needs become apparent, but you see that we now have a \$10,000 maximum limit and then provide a rule that goes 50 per cent beyond that. It does not make any difference what the rule is if it is wholly ineffective.

Mr. STEVENSON. They issued the rule based on their judgment that \$200 an acre was enough for any land used for mere farming.

Mr. SILVER. That may not include the cost.

Mr. STEVENSON. That may be, but we have got our conclusions on properly stated facts.

Mr. SILVER. Not on somebody's belief and statement, however honest it may be—that is not borne out by the actual facts in the case. If that land cost more than \$200 an acre, they are wrong in their conclusion; that is all.

Mr. STEVENSON. I do not know about that.

Mr. SILVER. Sure, you are wrong, if the land costs more.

Mr. STEVENSON. The plantation adjoining mine was sold three years ago at public auction, and a whole lot of it brought \$200 an acre. I would not give to-day over \$50 an acre for it.

Mr. SILVER. That is possible.

Mr. STEVENSON. The men who bought it have gone broke.

Mr. SILVER. And still the averages you are tying on the farm loan does not prove anything except that somebody made a mistake in buying a piece of land. In other words, if we are to have such deflation as you refer to there continued, there is no financial system that will save the farmers, and there will be nobody to grow foodstuffs for us.

Mr. STEVENSON. I was just giving you an instance of the fact that you can not rely on what land brings as to what it is worth. You talk about deflation. That same piece of land I bought—375 acres for \$3,750 with the timber on it—and sold a man the timber, and sold it to the fellow who had it for \$5,000 after I had sold the timber off it.

Mr. SILVER. You are a pretty good trader.

Mr. STEVENSON. And he got \$200 an acre for nearly all of it at a public sale. It was inflation; it was not worth it. It was worth about \$5,000, and brought about \$50,000 or \$60,000.

Mr. SILVER. All of which does not prove by far any large values of the farm lands.

Mr. STEVENSON. Sure—what land brings at different times—and that was the reason they made the rule, and land was selling at \$300 to \$400 an acre, which was on a speculative scale, and they made the rule that \$200 an acre for farming purposes was all it was worth, and that they would not loan more than \$200 an acre, and they were absolutely right. I think the board showed wisdom which entitles it and does give it consideration, because we have the men who could do it.

Mr. SILVER. All of which is still in line with what I called attention, that that maximum did not mean anything when it was 50 per cent above their maximum loan on the economic unit.

Mr. STEVENSON. How many bushels of corn on an average would that land make in Iowa?

Mr. SILVER. I do not know what the statistics show on an average, but a good piece of land out there will make from 50 to 100 bushels to the acre.

Mr. STEVENSON. You would say, then, it would be safe to figure on 75 bushels. A neighbor of mine captured the world prize, and it has been hung up in the courthouse where I practiced law for 40 years, by producing 273 bushels of corn on one acre. And I never did believe it until he hauled the corn in. But he had a whole lot of agriculturists watching him. If he produced it he was entitled to the prize.

Another boy produced 228 bushels on an adjoining farm to mine. But 75 bushels is a big lot of corn to produce on an acre in a field of any considerable size.

Mr. SILVER. It is more corn to a southerner than to an Illinois or Iowa farmer, you understand.

Mr. STEVENSON. We have made better records for corn production than they have.

Mr. SILVER. I am not arguing about that particular fact.

Mr. STEVENSON. We will strike an average of 75 bushels.

Mr. SILVER. All right.

Mr. STEVENSON. How much does it cost to make that, outside of the investment?

Mr. SILVER. You will have to get your figures from the Department of Agriculture. They have those figures, if you want to get them down to averages.

Mr. STEVENSON. When you count the interest on your investment—I mean, when you count the expense of making 75 bushels of corn, and take that out and sell the corn, it will not make a very big return on land at \$400 an acre?

Mr. SILVER. No.

Mr. STEVENSON. It will not make much of a return on \$200 an acre.

Mr. SILVER. And now you are getting to exactly the place I hoped you would arrive at. In connection with your idea of fixing the values, when you commended an arbitrary fixing place, that land is going to sell just in accordance with the returns of the land that justifies it, whether higher or lower; that is going to be the measure, and an arbitrary fixing place is not going to settle the question, whether it is 50, 75, or 100 does not make any difference—the selling price of the production will fix the selling price of the land. The purpose to which you can put the land and earn on it determines its market price and determines it on averages in big areas.

Mr. GOLDSBOROUGH. Do you think it has been doing that for the past 15 years?

Mr. SILVER. Outside of the unusual disturbance of the war time, and always at a war-time period people are anxious to get to the place that foodstuffs are produced, which will determine whether they are to exist or not—not the war, but foodstuffs—and consequently people who have no interest in land will go out and buy land at almost any price, and the same thing happens in all countries, just because of that inherent potentiality in human nature—self-preservation—they are trying to find the land when worst comes to worst; and that disturbs the orderly procedure of other times. Aside from that time, I would say, yes.

Mr. GOLDSBOROUGH. It has not been so in my home county. I do not know whether it has been so in the West or not. In my country the price of land in the past 12 years has never been justified by the yield.

Mr. SILVER. What are the local situations as to cities, etc., the other purposes to which the land can be put?

Mr. GOLDSBOROUGH. You probably know the locality—the Eastern Shore of Maryland?

Mr. SILVER. Yes; and there are no large cities there particularly to effect it; and by what other measure would they determine the value of the land other than a reasonable return on it? People on account of the safety of land will take a less average return than they would in an industry that is not so basic, and it is ordinarily affected less by markets and prices and values. But otherwise than that, that land must be in the main priced by what it will produce in net results.

Mr. GOLDSBOROUGH. But, at the same time the price in my locality has been influenced largely by speculation and more particularly, I think, by the influence of the scout farm agency, which brought people in there from localities where land was selling for a great deal more, and land has been unloaded on them continuously at prices that are not justified.

Mr. SILVER. That can happen in local communities, but it can not happen throughout the country. The farm lands of the country have got to reflect the prosperity or adversity of the production of the farm.

Mr. STEVENSON. I just wanted to give you an idea of the way my mind is running on this, that this concern was established for the purpose of building up the most prosperous and economical system of agriculture and land ownership, and that whatever is necessary to do that, and nothing more, is what should be done—not put it in the business of lending money in competition with insurance companies and everybody else. It does not make any difference what they do. We should lay out our course and how to it; and it has run in my mind ever since I have heard this testimony about the Middle West that the economic unit seems to have been agreed upon pretty generally in strict farming at about 160 acres, and that the Farm Loan Board itself has limited their loans to \$100 an acre; and therefore that is the maximum limit and it ought to be raised to \$16,000. That has been running through my mind, but I have got to be shown before I will agree to raise it any more. You might show me. I am not an unreasonable man, but I am a little fixed in my opinions.

Mr. SILVER. As I called attention to just a moment ago, that 160 acres was the unit recognized in days gone by but it is not the economic unit today in that same section, nor does it measure the acreage per economic unit for all the various activities of agriculture. You can not measure by the same acreage as to dairy farming, fruit growing, ranching, cereal growing, cotton growing, etc. The acreage is not the determination of the economic unit, and you want the farm products produced economically, and in order to produce economically you must finance the economic unit, whatever it may be—I do not care whether 200 acres or 300 acres or 500 acres. It is not the number of acres; it is the economic unit, if you are to conserve not only the farmer but the public interests in producing foodstuffs or raw material for clothing.

And, again, the only difference between authorizing what agriculture may need in this bill and not authorizing it is whether the farmer is going to be able to turn to the only instrumentality that the Government sets up for him to get long-time loans.

Here is the instrumentality for financing the agricultural industry—I am not discussing intermediate credits—this is the only instrumentality for providing long-time money, and the money that he does not get through this he pays a commission and brokerage on the outside, as was shown in 1921 by our referendum that in addition to paying 6 to 10 per cent interest, that they paid 2 to 10 per cent commission on top of it, and that is where the Government has not functioned as the farmer has a right to expect it to function, for it reserves all powers in the Constitution for the creation and distribution of money and credits; and when it does not function it places the farmer at the disadvantage of having to deal with the fellow who imposes very burdensome requirements in many, many instances.

Mr. STEVENSON. We have not left him entirely without recourse when he gets up to those large loans, and it was in evidence by Mr. Lever yesterday, and I happen to know that is true, that the insurance companies have now entered the field and also the big loan companies, on the same rate.

Mr. SILVER. Because of—

Mr. STEVENSON (interposing). Well, certainly; and then there had been no raise in the limit.

Mr. SILVER. But with the threat and the alternative.

Mr. STEVENSON. I do not think it is that. They are not scared of threats. But it is because the joint-stock land banks have unlimited right practically to go into the same field as the joint-stock land banks are driving it down.

Mr. SILVER. Of course they are driving it down.

Mr. STEVENSON. That is private capital put up, don't you see, again? So that the necessity of the farmer is being met even with the \$10,000 limit. But the driving down of the rate of interest and the instances of these other loan companies, because of the fact that the joint-stock land banks are invading their field, and they are having to meet their rates. That is all there is to it.

Mr. SILVER. That part is very true—

Mr. STEVENSON. And therefore, as I say, the immediate urgency of the increasing of the limit is not so great as it would otherwise be.

Mr. SILVER. Why, it is just as great as it can possibly be, whilst the larger and more capable farmer, who may be a business man and trader, can trade and buy, because he has more contracts. It does not mean that every fellow who is not a good trader will not be held up and charged unconscionable commissions; that is, what the old-line farm mortgage companies are charging where they could get to it, and whenever you fail to give him an instrumentality to protect him from that class of people by not giving a proper access to the sources of credit.

And the point is this: It does not take a bit more money from the national reservoir of money and credits to finance him, if you make your maximum loan wherever he may need it than it does otherwise, or whether he is financed through this system or through some other method, it takes the same amount of capital and it takes the same amount of credits. It does not take a penny more from the national reservoir of money and credits.

Mr. GOLDSBOROUGH. Does it not increase the amount of tax-free securities, and does it not increase to that extent the liability on some other unit?

Mr. SILVER. Not if he turns to the joint stock land banks. It does not make a penny's difference in the tax-free securities; and whilst our organization is on record as opposing tax-free securities, but please do not bring in the subject of moralizing on tax-free securities while other groups are enjoying those tax-free securities.

Mr. GOLDSBOROUGH. You said it would not increase the volume.

Mr. SILVER. It will not increase the volume of the amount of moneys needed for their financing. It is only a question whether he gets it in this system or out of the system. He will have the same need, whether you make it \$10,000 or \$20,000. I will depend on what it may cost him. It may cost him less to get it here but more outside. But it does not reduce the amount of his demand and need.

Mr. GOLDSBOROUGH. You do not think the necessity of getting it outside of the system would tend to strain the inflation, then, do you?

Mr. SILVER. It just makes it higher priced to him and adds a burden to an already distressed business.

Mr. GOLDSBOROUGH. It has been testified to here and has been my experience, too, that a landlord could not get 6 per cent on an average from his tenant on the present selling price of land. Now, should he not be able to get from 5 to 6 per cent, unless, as a matter of fact, the farm lands are selling for more than they should sell, considering the average economic value?

Mr. SILVER. Have lands in this country ever paid 5 or 6 per cent in cropping?

Mr. GOLDSBOROUGH. I do not know; I can not answer that.

Mr. SILVER. I think not. I think that the whole renting return throughout the country for many years—I do not know how far back, certainly since the Civil War—have not averaged a 6 per cent return. So that as I said earlier in my testimony, the investor in lands will take a less average return because of the safety of it than he will in some other business.

Now, if the settlement day, March 1 in the western country and April 1 farther east, is to arrive and be met by these farmers—and they are the only ones who can qualify who have land—the importance of our advancing this bill rapidly; and whatever maximum you may figure will take some time for the applications to be filed, investigations to be made and that service rendered at that time; if it is not done in that time, when the settlement day comes those men will be subjected to just exactly what they have been on settling days gone by; that is, unconscionable commissions and brokerage charges for renewals.

And any maximum that does not take care of them will just bring around the same condition; and keep in mind that larger unit rather than the smaller unit produces the surplus foodstuffs that are available for consumption by other than the farmer.

The small farm, the hillside farm, the land that carries less plant foods are the lands that can qualify under the figures and terms which we have heretofore discussed.

Mr. GOLDSBOROUGH. Does not the present limit tend to check them?

Mr. SILVER. Not a bit.

Mr. GOLDSBOROUGH. Why not?

Mr. SILVER. It has the effect of making their loans higher priced, for they do not have the good risk. The man who is going to invest determines the profits and will take a better risk, the larger and more capable fellow and the fellow with the better plant.

Mr. GOLDSBOROUGH. Do you not think increasing this limit will tend to direct the attention of the Federal farm loan banks toward the larger loans than the smaller loans?

Mr. SILVER. It cannot change the size of the farm. The farm size is fixed by this economic unit as nearly as possible, and the need is based on that, and you cannot make the farm conform to the bankers idea if the idea differs from what is right.

Mr. GOLDSBOROUGH. The small loan comes in and also large loans. The small loan can very easily be given proper consideration.

Mr. SILVER. I can not think that for a minute. I think that if there was any reason for any preference it would be given the smaller fellow; but at the same time there is no reason for discriminating between either of them.

There is an abundance of money. Secretary Mellon testifies to that and other distinguished financiers testified to it. It is not a question of money; it is a question of instrumentality for securing this credit. It is not a question of any scarcity. There is enough for all of them, or they would not be financed now, if there was not a sufficient amount. It is a question of whether they have accessibility. It requires an instrumentality that gives them access to these credits, or they are penalized.

It does not help anybody except the broker to limit the loan; you only punish some people and do not help the others.

And the fellow you are intending to help you start out with a little loan, and the little fellow—

Mr. GOLDSBOROUGH (interposing). What is the theory then, of having any limit at all, say the limit of \$25,000?

Mr. SILVER. If I were drawing that bill I would just make it like the joint stock land banks, in the judgment of the board, and let them sit like every other bank board that extends credit throughout the country. You lay down your collateral and it justifies a certain extension of credit, no more and no less, and in proportion as that is justified as it is asked for they would be accommodated. The farmer is the only man you put a limit on except based on his needs, and on the collateral he puts up along with it.

Mr. GOLDSBOROUGH. There is only one other thing I would like to ask about. I am sure that several members of the committee—possibly all of them; certainly I myself do regard the deliberate opinion of the Federal Farm Loan Board very, very seriously. I have got an impression from the testimony given at this hearing and, in fact, I think practically all the members of the Farm Loan Board who have appeared before this committee have been particularly interested in the other phase of the bill, the reorganization features, and not in the matter of increasing the loan limit; in fact, I have got an impression that if the bill could be passed without the increase in the loan limit that they would prefer it. I think Governor Cooper in his testimony a day or two ago indicated by his statements that he favored the small land owner rather than legislation which would tend to increase the farm unit. What do you think about the other features of this bill, aside from the increase?

Mr. SILVER. Let me speak a little to that one thought that you have suggested: There are two schools of thought so far as the unit is concerned. There is one school—and there are many of them—that believe that the farmer is a yokel, and that he has an unhappy lot; that he has chosen that either by choice or by opportunity; and that he must live in his own misery for being in the class of a farmer and as they picture him an unhappy lot. There is another school of thought that believes that the farmer is a business man and is entitled to just the same opportunity that any other business man is; and in asking for the removal, as the Farm Bureau has, of the \$10,000 limit, they were looking on the farmer as a business man and agriculture as a calling the same as any other calling, and they wanted to continue their sons and daughters on the farm as a calling that would measure up with any other calling, the same talent applied and the same money invested.

Those are the two schools of thought: One man looks on the farmer as a little fellow and pictures him as a peasant; the other looks on the farmer as a business man and worthwhile fellow, and that makes the dividing line as to whether it is a big loan or a little loan that you fix in the bill.

Mr. GOLDSBOROUGH. You do not think the theory, then, that the farmer should accept his unhappy lot, as you have expressed it yourself, is the theory of the Federal Farm Loan Board?

Mr. SILVER. In former hearings the board has testified against the removal of the \$10,000 maximum, the 5½ per cent bill, the working capital bill: and at one time

testified that they would never loan more than \$150,000,000 in any one year, and at a later time not to exceed \$200,000,000—all of which is wholly insufficient for financing the \$80,000,000 business, because this is the only instrumentality authorized by law for long-time invested capital in farm lands.

Mr. GOLDSBOROUGH. That brings us to another feature of the bill. I was unable to get here at half past 10 and maybe you have covered it. What is your view, if you care to express it, as I do not know whether you have any interest in it or not—as to the provisions of this bill which change the administrative features, change the number of directors in the Federal farm loan banks and change the mode of election?

Mr. SILVER. I think that the time has come for permanent organization to be made, and I am in accord with the method of making that precisely according to this bill.

Mr. GOLDSBOROUGH. Are you in favor of the present bill?

Mr. SILVER. Yes, and for the reason that the farmer would get of his own choosing one-half of the board, and the seventh man, under the terms of the bill would be a farmer. He would get three of the seven, and the fourth man must be a farmer under the terms of the bill. So there would be four farmers in any event out of seven, and I think the farmers would take a chance of four farmers out of seven. The others may or may not be farmers, but they would take a chance with that bill. By taking three and making the fourth man a farmer, whilst jointly selected, it makes four actual farmers.

Mr. GOLDSBOROUGH. You understand, of course, that the control of that seventh member would be practically in the hands of the Federal Farm Loan Board?

Mr. SILVER. I understand that the Farm Loan Board, if they saw fit, might have a very great influence in the selecting of that fourth man.

Mr. GOLDSBOROUGH. How could it be otherwise than that they would control it?

Mr. SILVER. I do not think for a minute that they can afford—I am talking about the personnel—to take that position; and certainly not in many instances, or there would be such a protest against that board that there would be vacancies. I can not think that the Farm Loan Board will put itself in the position of getting the harvest it would be bound to reap if it did determine that in many instances.

Mr. GOLDSBOROUGH. The testimony here by the members of that board has been an acquiescence in the theory of the committee that the purpose of the bill is to give them control of the naming of the seventh member. There is not any question about that. The testimony has shown that.

Mr. MANSON. Judge Lobdell specifically stated that.

Mr. GOLDSBOROUGH. Judge Lobdell specifically stated that, and I think Governor Cooper did, if I am not mistaken.

Mr. SILVER. If in their determination, as you announced, that they go out to control the seventh man, and it is not in line with the farmers' viewpoint, there certainly would be very serious friction, and I think no board could stand up against it long.

Mr. GOLDSBOROUGH. What do you think about the provision in the bill which will result in the nonconformation of any farm organization now in existence?

Mr. SILVER. I do not subscribe to that viewpoint. I can not think for a moment what the naming of an agent in certain communities where they are not now being well served would have to do with liquidating the existing association. There is a provision in there for liquidation, which I think is right and proper, because some of the associations may want to quit business and it is an opportunity for them to quit. But, on the other hand, under the terms of the bill any time they are 10 loans the farmers themselves can form a new association; it does not prevent them from going on.

Mr. MANSON. Mr. Silver, do you realize that the sole purpose of having an association is to secure the action backed by financial responsibility of local people on an application? In other words, as it is now whenever a new member is admitted to an association, every member of that association assumes a liability of that loan up to 10 per cent of the amount of his stock, as a matter of fact.

Mr. SILVER. Five per cent in the subscription of stock and an added 5 per cent.

Mr. MANSON. And that when it becomes known that that liability can be escaped by the mere vote to dissolve, that their inducement is then to the fellows who have already got their loans to dissolve, and there is no inducement to stay in the system, and certainly no inducement to assume that liability after they have got their loan. There is certainly no inducement to them to form an organization—the only effect of which will be to load onto them a liability they have not got.

Mr. SILVER. This bill does not free him at all; he has got to buy stock and have the same liability.

Mr. GOLDSBOROUGH. He does not have to guarantee anybody else's loan?

Mr. SILVER. He has to buy the stock, and that is all the guaranty he has.

Mr. MANSON. It is put in a different place; in the one instance it is the guaranty of an indorser which can be enforced as soon as a payment is due; thus the loss never

falls on the bank. And it is also assumed by people in the locality who have an opportunity to protect themselves against an improvident loan, while in the case of the direct loan the double liability is the debtor instead of the indorser, and can not be enforced until the bank has become insolvent. In other words, the double liability now is at a place where it can protect the bank against ever becoming insolvent, while under direct loans the double liability will be had and placed where it will be for the benefit of the bondholder, after the bank has gone into a state of insolvency.

Mr. SILVER. That does not change the fact that when he gets a direct loan under this bill he just buys the same amount of stock and has the same conditions as at present.

Mr. GOLDSBOROUGH. As a matter of fact, does not the present law catch up the liability more quickly and prevent an accumulation of liability there?

Mr. SILVER. I do not so understand; I do not subscribe to that at all.

Mr. COREY. I do not like to interrupt you, but Mr. Manson is again mistaken in his conclusion, and I am sure that neither he nor you will want to be misled by the contention that is being made that the bonds are weakened by reason of this change in the law. As a matter of fact, the bonds are a very material restraint, and if you will pardon the interruption, Mr. Silver, I think I can work it out in just a moment.

Mr. SILVER. All right; go ahead.

Mr. COREY. To-day the individual stockholder is liable for a 100 per cent assessment and that liability is a liability which is in favor of his association. That is true, we will all agree. The association indorses the loan of the particular association—indorses it to protect the land bank. If the thing they say happens, that is to say, that in the course of two years all the associations will liquidate and each borrower would be a stockholder in the Federal land bank, the double liability then is a liability to the bank and not the association.

Now, what is the situation you have, then? Take our particular land bank of Omaha. You would have every stockholder in the land bank of Omaha, with its \$75,000,000 of loans, with the national bank's double liability provision as to each stockholder. I say that would be infinitely stronger from the viewpoint of the bondholder than the present situation, for this reason: Suppose, for example, that every association in the State of Wyoming and South Dakota should fail. Each stockholder under the double liability provision is liable to his association. But those failures in those two states might precipitate the failure of the Federal Land Bank of Omaha, and the Federal Land Bank of Omaha, to save itself from failure, could not call upon a single association in either Nebraska or Iowa to save itself from failure, if the association obligations would be taken care of. But if the individual stockholders own stock in the land bank, it prevents the failure of the land bank, no matter how many associations might fail.

Mr. GOLDSBOROUGH. But ultimately the security of the bonds rest upon the propriety of loans. And when you liquidate these associations, you get rid of the value of security, with which every member of that association watches a new loan, because of the fact that he has some liability there if that loan is not a proper one.

Mr. STRONG. That is a good theory, but let us now have the present existing facts about it.

Mr. COREY. You are right in theory, but in practice in the average association no particular attention is paid by the association to the loan proposition. That is the practical situation, whether it is right or wrong, that is the situation; and that the loan is made by the Federal land bank as a unit, relying upon the examination of the Federal appraisals.

Mr. MANSON. Might I add a suggestion right here?

Mr. STRONG. Yes.

Mr. MANSON. If we will read the provisions of the original law and of this bill we will find that the liability under the existing law does not run to the association, nor does the liability under this bill run to the bank. The liability under the existing law runs to the creditors of the association, which is the bank; the liability under this bill runs to the creditors of the bank, who are the bondholders. The language of the act in both instances is that the stockholders shall be under this double liability, to answer for the contracts, debts, and defaults of the association under the existing law and of the bank under the bill. That means simply this: That while you seem to have the same amount of aggregate liability at the present time and there is the same amount of aggregate security behind the bonds, in the one instance, the security is where it can prevent the bank from ever reaching the point where the bondholder suffers a default in the payment of interest when it is due. There is no occasion for this double liability act as an additional security for the bond, after the bank has liquidated. The security of the mortgages themselves is adequate in the course of time to pay out the bondholders.

I do not think anybody entertains the idea that if you would wipe out this double liability entirely the bondholders holding bonds, backed by the class of mortgages that secure these bonds, would ever suffer a dollar of loss in the long run. But it is as important to my mind that the interest be paid when due as it is that the bonds be adequately secured because if there was one default by any bank in the payment of the interest when due, even though that default only extended for one week, it would so weaken the system as a whole that it would be impossible to sell bonds.

The financial advantage of the present system is that the liability can be invoked. There are several financial advantages. In the first place, the dividend of the association can be looked to, and is looked to, to meet the defaults of individual members of the association. There is a practical remedy that is now being resorted to to keep losses off of the books of the bank, to keep the books of the bank from reflecting a large amount of unpaid installments of interest and amortization payments, with the consequently higher standing for the bank in the bond market; in the second place, the double liability to-day is where it can be enforced before the bank has suffered any loss at all. That is entirely outside of the question that if an agent who does not indorse the loan every incentive that that agent has is to make the loan regardless of whether the moral risk is good or bad, as long as the farm is appraised at a price which will permit the loan to be made, while under the existing system the financial incentive, instead of being for the making of the loan, is against the making of the loan if the moral risk is bad.

Mr. STRONG. I do not want to prolong this controversy, but I am certain that Mr. Manson does not want to be in the record as stating that if one member defaults in the payment of interest it is going to wreck this system.

Mr. MANSON. I do not say that.

Mr. COREY. Just one word, and then I am through. You have sent out to the secretary-treasurers throughout the country on January 3 another letter advancing the theory—and you are just as much mistaken about some of your old theories as your new theories that you admitted in the record were wrong.

Mr. MANSON. I do not admit any theories were wrong. I admitted certain facts were inaccurate.

Mr. STRONG. If they were inaccurate, they were wrong.

Mr. MANSON. They were not theories.

Mr. COREY. I will say this, Mr. Manson, that before you in the future make certain statements with reference to a banking institution, it is a fundamental rule of business that a man ought to know the facts before he makes the statement, and you made statements in your circular in August that certainly shows ignorance and certainly shows a lack of regard for a big financial institution. Your statement now—

Mr. MANSON. I challenge that.

Mr. COREY. In your statement now, in your letter that you mailed out January 3, to our secretary-treasurers on the point we are now discussing, I contend your theory is entirely wrong. I submit that I know nothing about bonds; and I guess that you know a little more about it than I do. But I venture to suggest that this proposition we are discussing can be put up to any reputable bond house in America, whose judgment ought to be good, and they will agree that the change as provided in this bill will strengthen the law.

Mr. MANSON. The question we are discussing is the question of the law of corporations.

Mr. SILVER. Resuming just at the point we were discussing: With the experience of a farmer and president of a farm-loan association, and the conclusion of our group on this subject, I want to say that those terms are acceptable, for we believe that it will not destroy the cooperative feature of the county association of the National Farm Loan Association, and it will in fact build them up, for the naming of an agent in a community, with the authorization under this bill to make an additional association at any time there is the legal number of borrowers, will cause the system to grow rather than retard it or decrease it; and it will not do that but it will increase its efficiency, it will enable the farmer in a more remote section to secure the need that he is not now able to get.

So that we subscribe to that belief and those terms.

We think well of the proposal to issue the securities in a national way instead of a group way, which has not been heretofore.

There is an outstanding illustration of that in the case of New York, where it authorized for certain purposes the expenditures of farm-loan banks in that district and to the advantage of those of the other district. It would prevent a repetition of that in other States or other places, money centers, where these bonds must be sold, and therefore be helpful to the rural groups which do not have access to money in their communities but must go into the large markets.

In section 5 I have a memorandum here of the different things it sets out to do, and which I will ask to be inserted in the record, that I may have referred definitely to each of the provisions.

Section 5, where it provides for liberalizing the purposes to which the loans may be made, it is certainly worth while and right, and I would be very glad to see the word "education" inserted in there along with it, whilst the national board at this time that that is a proper purpose, I believe it should be mandatory and a part of the organic law.

I believe I have mentioned and referred to each of the points, unless there is some question on these subjects—

Mr. STRONG. Have you discussed the matter of the expense of the organization to be paid by the several banks?

Mr. SILVER. The banks bearing their own expenses? I do not know that I have said anything definitely on that. I know of no reason why this system should not be self supporting, and it is not proposed to make any money out of it. It is only the carrying of its own indebtedness and the saving by having a system such as this is intended to be: the cost of its operation will not be noticeable in the large saving to the farmer between this and the alternative which he is confronted with when he does not have free access to the system.

Mr. STRONG. As it is now the 66 joint-stock land banks which are purely private organizations, and money-making propositions, have their expense paid by the United States Treasury, and this provision will provide that they pay their proportionate charge?

Mr. SILVER. Certainly.

Mr. STRONG. And, of course, the Federal land banks will pay their proportionate charge. Do you know of any reason why the farmers should not be willing to pay their cost of being served with this system?

Mr. SILVER. The American farmer does not ask—and this applies not only to this bill but to other bills before Congress—to become the ward of the Nation; he is an upstanding, self-respecting citizen, and there is nothing improper about this system paying its way.

Mr. STRONG. He is generally opposed to class legislation, and he does not ask it for himself?

Mr. SILVER. Right.

Mr. GOLDSBOROUGH. Mr. Chairman, you said that the United States Treasury paid the cost of maintaining the joint-stock land banks.

Mr. STRONG. The supervision, I mean.

Mr. GOLDSBOROUGH. That is not my understanding—I thought they paid it themselves.

Mr. COREY. He is right about that, Mr. Goldsborough. The Federal Farm Loan Board supervises both systems, and the entire expense of this central organization at Washington, with their examiners, etc., is paid by the government now. This bill merely proposes to prorate that expense among the joint-stock land banks and Federal banks.

Mr. SILVER. That is my understanding of it.

Mr. STRONG. There being now 60 or 70 joint-stock land banks and only 12 Federal land banks.

Mr. MANSON. About 50 per cent of the expense will go on the Federal land banks under this bill.

Mr. STRONG. We have no evidence of that kind, except just the bald statement. I do not know what the facts are.

Mr. MANSON. It is a matter of mathematics. The bill provides that the expense—

Mr. GOLDSBOROUGH (interposing). I think Governor Cooper agreed to that statement.

Mr. STRONG. The question I want to bring out is whether or not there is any objection on the part of the farmers to bear the expense that they make in receiving the benefits that they do receive under this system, or whether they feel that the Government should continue to bear the expense. Certainly it is desirable that the privately owned money-making joint-stock land banks should bear their own expense, and I can not believe but what the farmers are willing to bear the expense of the service that comes to them.

Mr. MANSON. I might suggest here that the same principle applies to the national banks and would require them to pay the expense.

Mr. STRONG. The national banks do bear the expense of their examination? Mr. MANSON. Yes, but they do not pay what this bill provides these banks shall pay; they do not pay the expense of maintaining the office of the Comptroller of the Currency.

Mr. STRONG. No, that is true, but the banks in the Federal reserve system pay all the expenses.

Mr. MANSON. And that is what this bill imposes upon these banks.

Mr. STRONG. Should not the individuals to be served pay that expense, or should the Government pay it? That is the question I wanted to have some discussion on.

Mr. SILVER. If there are no further questions—

Mr. GOLDSBOROUGH (interposing). If you are through, the committee has enjoyed hearing you and getting the information you have given us.

Mr. SILVER. Thank you, Mr. Goldsborough; and I want to thank the committee for the opportunity of being heard, and for the courtesy while here.

And I do want to make reference to this little pamphlet issued by the American Farm Bureau Federation, November 10, 1922, entitled "The loan limit of the Federal land banks should be increased to \$25,000." Judge Tower, I believe, inserted it in the record, and just that it may not be overlooked I refer to it here as being something well worthy of the present consideration of the members of the committee.

Mr. MANSON. Do you see any reason why there should be any different policy with respect to Government supervision over these banks than the national banks, from the standpoint of paying the expense? In other words, is there any reason why so long as the Government pays the expense of supervising the national banks by maintaining the office of the Comptroller of the Currency at its own expense, why the expense of maintaining the same supervision over these banks?

Mr. SILVER. I would rather answer that question as soon as I see what works out in this tax on national banks. There is something there, in my mind; that I wish to be clear to talk about as soon as it is determined what will be done in that matter, because that will have something to do with my opinion. I think that they should be fairly treated.

Mr. MANSON. I have no objection to the principle of applying the expense of having these banks reimburse the Government to the expense that the Government is put to by reason of maintenance of supervision, but I think the same principle applies as well to national banks. I think it applies to the maintenance of the administration of the food act, which places the stamp of approval on manufactured food products, and to all other activities of that character, where the Government steps in for the protection of the public and supervises to a greater or less extent the activity of a private business.

Mr. SILVER. You and I as to principle agree; we have no difference at all. These other things that have to do with whether it is being administered would have to do with my answer to that question. I think they ought to be fairly treated.

Mr. MANSON. It is a matter of general policy, and I think applies to one as well as the other?

Mr. SILVER. I think so.

(The memorandum of House bill 13125 submitted by Mr. Silver is as follows:)

"First section provides for payment of expenses of system by Federal and joint-stock land banks.

"The Government has to date borne all expenses of the supervision, including examination. This has been a sufficient contribution, and the banks being abundantly able, should now relieve the Government of further contribution and let the farm loan system sustain itself.

"There was fair reason for the Government bearing this expense for the Farmers' Mutual Banks until they were in position to bear it for themselves. There was never any excuse for the Government bearing the expense of examination and supervision of the joint-stock land banks, which are private institutions, organized for profit.

"Section 2 relates to the permanent organization of the Federal land banks. Reduces the number of directors to seven, provides that three shall be elected by associations, three appointed by the Government, the six so selected to annually elect the seventh, who shall be actually engaged in farming, and be chairman of the board of directors.

"Previous provision, six elected by associations, three appointed by Government, one of whom shall be chairman of board.

"Purpose to give fullest consistent representation to associations, but guarantee against loss of Government control, which is deemed essential to marketing the bonds.

"This section also fixes the voting strength of associations and provides for the division of land bank districts into director's districts. The law now provides for the election of all local directors from the district at large.

"Section 3 provides for the creation of a corporation within the banks to be styled "The central Federal land bank."

"Purpose to be managing sales agent for the bonds of the 12 banks, and to issue bonds on behalf of all the banks, thus centralizing the issue and guarding against discrimination between the bonds of the banks by investors or legislation."

"Section 4 provides for the liquidation of an association upon the vote of two-thirds of its shareholders."

"There is no provision in the existing act for such liquidation, although the liquidation is contemplated, and provision is made for the disposition of the funds of a liquidating association. This was evidently an oversight in the original draft."

"Section 5 makes two amendments to section 12 of the original act. The first in subsection D, purpose of loan, authorizes loans to liquidate the indebtedness of the owner of the land mortgaged without regard to the purpose for which such indebtedness was created. The seventh paragraph of the same section 12 is amended by increasing the loan limit from \$10,000 to \$25,000."

"Section 6 provides for the designation of agents to receive applications and close loans in territory where associations have not been organized, or where organized associations do not function in such a way as to serve the community. The lack of this provision is denying many deserving borrowers access to the system."

Mr. STRONG. The committee will now be glad to hear Mr. Mornin.

STATEMENT OF MR. GEORGE S. MORIN, SECRETARY-TREASURER, FEDERAL NATIONAL LOAN ASSOCIATION, CEDAR FALLS, IOWA.

Mr. MORIN. Mr. Chairman and gentlemen of the committee, I am only a secretary-treasurer of the Federal National Loan Association.

Mr. STRONG. Of the local Federal loan association?

Mr. MORIN. Yes, sir. I am in the banking business in Cedar Falls, Iowa, and have to deal with the farmers of that locality. I do not desire to discuss all the provisions of this bill, but I will mention only the following.

In the matter of permanent organization, I know that government control has given us a low bond rate and I am sure there is absolutely no desire for election of directors in our district. I favor the central Federal land bank as a medium through which the bonds may be marketed. It has been a very great pleasure to me to be associated with the officers of the Federal land bank of Omaha, also the Federal Farm Loan Board at Washington. They are high-minded men, always alert to the best interests of the land bank system, and always ready to help lighten the burden of the borrower, and we are perfectly willing that they be allowed to handle this problem.

With reference to voluntary liquidation, I feel quite sure that such an association as ours would not liquidate. There are other associations, however, where secretary-treasurers might represent other loan agencies and the association fail to function, which might liquidate, and then in that case, so that the farmer might have the benefit of the system, an agent should be appointed.

As the Federal farm loan act was intended to help agriculture, I believe the purposes of the loan should be liberally construed and that the executive committee of the Federal land bank receiving the application for a loan should pass on the eligibility of the applicant.

The cycle of the farmer is, first: A young man employed as farm laborer. Second, with the savings of \$1,000 or \$2,000 capital and a reputation for efficiency and good credit in his line, he becomes a farmer tenant or renter. Third, with his capital enlarged to a few thousand dollars and a good credit reputation, he buys a farm. Statistics show that the profitable sized farm is from 140 to 240 acres. Under the conservative valuation of Iowa farm lands running from \$200 to \$300 per acre, the tenant farmer is absolutely eliminated and as an owner of lands, were he to depend upon the Federal farm loan system as it now is. The average size farm in Iowa is, from official records, 159 acres exclusive of roads, or, as we would say, a quarter section. Iowa not being a truck-garden farm State, experience shows that the farm of small size does not pay, but with the average size of 150 acres, with the price running from \$200 to \$300, it would be conservative to place the average value at \$35,000 for the average Iowa farm.

The Federal farm loan system loans up to 50 per cent of the conservative appraisal value of the land and 20 per cent of the value of the buildings. The tenant farmer with a fair amount of accumulated savings could purchase a quarter section of land valued at \$35,000 and borrow from the Federal land bank from \$12,000 to \$16,000, possibly make a reasonable payment in cash on the farm, the owner taking a second mortgage for the unpaid balance. In this way, the progressive tenant becomes a prosperous owner. He takes a keen interest in this land, fencing, tiling, better buildings, and better lines of live-stock. Then under the amortization plan, he is given what every farmer must have, long-time credit. When a farmer is compelled to

refinance himself every few years, he has to go into the market and pay whatever rate of interest and whatever commission is demanded of him, but under the Federal farm loan system he is not worried about his loan coming due, and uses his surplus in general improvements on the farm.

At present the farmer feels the effect of ever-changing conditions. Many farmers in Iowa are borrowers from the land bank system. Their loans run from \$10,000 and less. These farms often are from 100 to 200 acres. These farmers want to do additional tiling; want to build granaries, hog houses; want to add to their live stock, and could do so in the Federal farm loan system, were the loaning limit raised to \$25,000. As it is, the land bank dislikes to direct the farmer to other sources for additional credit. They dislike to release their mortgage and they are absolutely held down by the limitation of \$10,000 to each individual. The farmers look upon the Federal land bank as their bank; they look upon it as the one great cooperative system in which they share a portion of the profits. They do not want to go elsewhere; and is there any just reason whatever to denying to honest and intelligent farmers credit that he can use successfully when he has abundance of security to put up for his added loan?

Then as to rates, the farmers in our State remember very well the rates they were asked for the renewal of their loans during the pendency of the Federal land bank case before the Supreme Court. I remember well in my county commissions as high as 10 per cent were asked of the farmer for the renewal of loans. High rates of interest and high commissions discourage farmers. Low rates of interest and a fair amount of money loaned on his farm will stimulate agriculture. Agriculture being the basic industry, we believe it was for Congress to do everything in its power to encourage it.

Mr. STRONG. Do you find any protest or objection among your farmers against the farm loan banks and the joint stock land banks paying their pro rata share of the expense of the maintenance of Government supervision?

Mr. MORIN. No, sir.

Mr. GOLDSBOROUGH. In that connection, I suppose a tenant farmer—and I am speaking of the average case, of course—in order to purchase a \$35,000 farm, under this system he could get how much, did you say?

Mr. MORIN. It depends on whether the limit would be raised.

Mr. GOLDSBOROUGH. But under this new bill?

Mr. MORIN. It depends on what kind of a deal he could make with the man selling the farm. He would not be able to get by with the \$10,000 limit; he may with a \$12,000, \$15,000 or maybe \$16,000 limit. I believe he could get by in our State, Mr. Congressman, with \$15,000 limit.

Mr. GOLDSBOROUGH. Suppose he got \$15,000. How would he ordinarily arrange with the person from whom he purchased the land?

Mr. MORIN. He is supposed to have a surplus of money to pay down on that himself, and then let the owner of the land take a certain mortgage for the unpaid balance.

Mr. GOLDSBOROUGH. For how much?

Mr. MORIN. Whatever they could agree on. That would be a matter entirely of agreement.

Mr. GOLDSBOROUGH. But I am speaking from a practical standpoint. You said that the tenant farmer could not hope to accumulate enough to buy a \$35,000 farm. I am wondering if he could ever accumulate enough to buy a \$35,000 farm even if the Government loaned him 50 per cent of it. That is what I am trying to get at.

Mr. MORIN. I think he could.

Mr. GOLDSBOROUGH. Could he not be buried before he started?

Mr. MORIN. No, sir; he would not. He would have a chance to work over a period of 33 years.

Mr. GOLDSBOROUGH. How about his second mortgage? He would not be working 33 years on that?

Mr. MORIN. He is supposed to pay something on the purchase of that land. I am speaking of the borrowing of the total amount.

Mr. GOLDSBOROUGH. How much on an average—just give some idea.

Mr. MORIN. That would be \$5,000, \$6,000, \$8,000, or \$10,000.

Mr. GOLDSBOROUGH. How would the tenant get \$8,000 or \$10,000?

Mr. MORIN. How can he?

Mr. GOLDSBOROUGH. Yes.

Mr. MORIN. We have farmers out there, tenant farmers, who have \$5,000 or \$6,000. Mr. GOLDSBOROUGH. \$5,000 or \$6,000, but you said \$8,000 or \$10,000.

Mr. MORIN. Yes, or \$8,000 or \$10,000. They might be able to get it from some of their families and some of the children might be able to get it in broadening out and owning the farm adjoining it.

Mr. GOLDSBOROUGH. Do you think that the man who has accumulated \$15,000 is in a position to buy a \$35,000 farm?

Mr. MORNIN. It depends entirely on the terms.

Mr. GOLDSBOROUGH. On any terms?

Mr. MORNIN. Yes, sir; I do.

Mr. GOLDSBOROUGH. I do not.

Mr. STRONG. Is it not true very often that in a community where a young man has been a tenant farmer and has been successful and established a reputation of being a good farmer, that that kind of a man, with \$5,000 or \$10,000 to make a cash payment, can find some one who is willing to sell him the land?

Mr. MORNIN. Absolutely.

Mr. STRONG. And by giving a first mortgage under this system and a second mortgage on the land, is it not true that many a tenant farmer of that class has worked out and paid for his farm?

Mr. MORNIN. Absolutely.

Mr. STRONG. And is that not about the only hope they have?

Mr. MORNIN. The only hope they have.

Mr. GOLDSBOROUGH. As a matter of fact, if a man wants to buy a farm in your section that would sell for upward of \$25,000, and who has only \$6,000 cash to pay down on it, can he get that farm for anything like its proper cash price?

Mr. MORNIN. It depends on how bad the man wants to sell. He might find a man who would sell it at a low price.

Mr. GOLDSBOROUGH. Will not the man who takes the second mortgage want a great big margin in his cost price?

Mr. MORNIN. No, sir; not at all.

Mr. GOLDSBOROUGH. Before he will put it in such a deal?

Mr. MORNIN. No, sir.

Mr. GOLDSBOROUGH. Then your section of the country is different from any other.

Mr. MORNIN. Our section is one of the best on earth—Illinois.

Mr. GOLDSBOROUGH. I am talking about the possibility of a man with only \$6,000 buying a farm where the seller would have to take a second mortgage at anything like a proper price.

Mr. MORNIN. Yes, sir; he can buy a farm in Black Hawk County to-day on \$6,000 payment. I know it; I live among those farmers, and I know.

Mr. STRONG. Is it not true that the security that the seller looks to largely, where he takes a small cash payment like \$5,000 or \$10,000 on the \$20,000, \$25,000, or \$30,000 farm, is the ability that has been demonstrated by the purchaser to succeed?

Mr. MORNIN. Yes, sir; the reputation of the man buying the farm, the type of a man that he is.

Mr. STRONG. That he is a good farmer and has accumulated \$5,000 or \$10,000?

Mr. MORNIN. Yes; absolutely. I do not mean some shiftless individual that won't take care of a farm.

Mr. STRONG. Let us suggest this case: Here is a man who has perhaps farmed all his life, and has reached that time in life when he is compelled to retire. If he has no boys to put on that farm, he looks around through the community and finds some young fellow who has made a success of farming, who has a little money to pay him down, in addition to the first mortgage, and he is glad to take the second mortgage and to get the interest?

Mr. MORNIN. Absolutely.

Mr. STRONG. That is the condition existing in my country.

Mr. MORNIN. It is the condition in Illinois and South Dakota and the condition in eastern Nebraska—the condition all over our country.

Mr. STRONG. If there are no further questions or statements on the part of the witnesses, we will recess without objection until 2 o'clock this afternoon.

(Thereupon, at 12.50 o'clock, the committee took a recess until 2 o'clock this afternoon.)

AFTER RECESS.

The committee reassembled at the expiration of the recess.

Mr. STRONG. Mr. Marsh has requested to be heard before this committee, and we will now hear him.

STATEMENT OF MR. BENJAMIN C. MARSH, MANAGING DIRECTOR OF THE FARMERS' NATIONAL COUNCIL, WASHINGTON, D. C.

Mr. MARSH. Mr. Chairman and gentlemen of the committee, my name is Benjamin C. Marsh. I am managing director of the Farmers' National Council, with headquarters in the Bliss Building here in Washington; and I want to ask some questions with reference to the bill of Mr. Strong, H. R. 13125, and then to comment on some features of it.

First, I would like to say that it seems to me that we have reached the time in agriculture where we have got to take a little look ahead, and think not only of domestic production but of the necessity for putting ourselves in shape to compete with foreign growers of agricultural products; because while it is true that, in the aggregate, only possibly 6 or 8 per cent of the value of our farm products is now being exported, an increase of a small percentage in our domestic consumption of agricultural products is going to be more important than doubling the exports; but nevertheless we want to export more agricultural products.

And if you will follow the discussion, as I am sure the chairman and members of the committee have, of what is American agriculture's greatest drawback in competing in the production of wheat, cotton, and other agricultural products with foreign countries, you will find that practically always the first suggestion is the high selling price of farm lands in this country. Of course high freight rates and high credit rates enter too.

Now, to my mind, the most important feature of this bill and the thing which has been discussed quite a little is the proposal to increase the maximum loan that can be made to a single farmer or farm owner, as I understand it, from \$10,000 to \$25,000.

I say the most important, because I think it will have the greatest effect upon agriculture, and because our present system of credit, coupled with our present taxation system, has produced some of the most serious problems in agriculture—Mr. STRONG (interposing). Pardon me a moment. You are an advocate of what we call the "single tax," are you not?

Mr. MARSH. No; I have never been an advocate of the single tax. I have gone as far as anyone in advocating the taxing of incomes, excess profits, and inheritances; and the Farmers' National Council has advocated a capital tax on the value of all property; so that you could not call me a single taxer with any approximation or squint in the direction of accuracy.

Mr. STRONG. But you do believe in the single tax upon land, with the additional taxes upon large wealth, do you not?

Mr. MARSH. Well, that statement is as accurate as to say that a man believes in monogamy if he does not care how many wives a man has.

Mr. STRONG. Excuse me; I do not want to misquote you in any way.

Mr. MARSH. No.

Mr. STRONG. But, if I remember rightly, in a former hearing when you appeared before the committee—and if I am wrong about this, I would be glad to be corrected—I understand that you said part of the revenues that went to your organization to help maintain it were derived from the Single Tax Society in New York, or from some woman's estate who left some money in the interest of the Single Tax Society in New York, and from that I thought you believed in the single tax proposition or belonged to the bunch of men called single taxers.

Mr. MARSH. No. I think what you probably have reference to, Mr. Strong, is a statement of Mr. George P. Hampton, who died two years ago this coming June, who was director of the Farmers' National Council till his death, and who said explicitly he was a single taxer. But I have often made what is an equally truthful statement that I am not a single taxer. It is also true that Mrs. Fels did give some money to support the work the Farmers' Single Tax League and Council was doing, but that was during the time Mr. Hampton was at the head of it, and before Mr. Hampton died I had nothing to do with the finances of the council. But apart from not being a single taxer, I am as vigorous an advocate of the excess profits tax, perhaps, as anyone you can find, and I do not mind if you impeach the Secretary of the Treasury for not enforcing the law by taxing those corporate profits which are distributed in the way of stock dividends to evade taxation. I say go the limit on that and I will go right along with you.

But what I want to get at is what is the best thing permanently for the farmers. I say that this provision for increasing the amount that can be loaned to a single farmer is something which is most important, not because the other parts of this bill are not important, but because if you once create or permit the creation and establishment of a certain selling price for farm lands, you make it much more difficult to change that without very great hardship to the farmers.

Now, on the provision as to whether there shall be three or six or four of the directors of the local cooperative association, organized under the farm loan act, appointed or elected in one way or another, while it is important it can be changed from time to time. But here is the situation today, and I think it is perfectly evident, that the selling price of farm lands in the United States, as a whole, is billions and billions of dollars more than it ought to be for the best interests of the farmers themselves.

Mr. STRONG. You mean the land is getting too high priced?

Mr. MARSH. The land is selling for too high a price.

Mr. APPEBY. How are you going to stop the question of supply and demand? If an Iowa farmer has a farm and he is offered and sells it for \$400 an acre and a dozen

other men in the same neighborhood in Iowa get the same price for their farms, that fixes a new price and how are you going to blame them for it?

Mr. MARSH. It seems to me, and I am sure the Congressmen will agree to this, that we are interested in the farmer as a producer of farm products and not as a speculator in farm lands.

Mr. APPLEBY. He may not be a speculator, but the demand for farm land is such that it gets the price up very high.

Mr. MARSH. That is true.

Mr. FENN. How is this bill going to prevent that situation?

Mr. MARSH. I am going to come to that.

Mr. FENN. That is what I thought you were coming to.

Mr. MARSH. This provision permitting increasing the maximum loan to an individual farmer from \$10,000 to \$25,000, it will very greatly encourage speculation in farm lands. Now it is an irony that under our present taxation system, under which we tax improvements (and I am willing to say very frankly that I am opposed to any tax on improvements whatever), under this system the lower the rate of interest on farm loans, the greater the farm land speculation. That is evident, because you reduce the carrying charges. Also, some of the farmers forgot economic laws enough during the war so that they capitalized the selling price of their farm land at the then selling price of farm products and they got hit good and plenty. One United States Senator told me, within the last ten days or couple of weeks, that he dropped \$100,000, lost it, through speculation in farm lands and I assured him I had not the slightest sympathy for him, although I like him personally very much, and I told him he ought to take his medicine, and I think he is willing to do it.

But I have been trying to figure out what is the purpose of this farm-loan system. It seems to me, that, in a general way, the purpose, in principle, is the same as that which led the Government to give the railroads 144,000,000 acres of land and cash grants to the extent, roughly, of three quarters of a billion dollars, and led the States to give them terminal sites, etc. It was to reduce the fixed charges of transportation and to permit lower freight rates.

Mr. STRONG. The land that the Government gave them, though, was not worth this price when the Government gave it to them.

Mr. MARSH. No, I do not say that; but this subvention in cash of \$750,000,000 was in addition to the amount of land which the Government gave them; that was over and above the amount of land given them.

Mr. STRONG. The land they gave them was not worth anything like the figure you mentioned when the Government gave it to them?

Mr. MARSH. No; not at that time; but since then they have valued it at something like six to six and one-half billion dollars in their capital account.

Mr. STRONG. They have gotten rid of most of that land.

Mr. MARSH. They passed the land grant lieu acts, under which—they got them through Congress years ago; please do not understand that I am criticizing the present Congress, because these are things that mostly date back a good many years ago—they got through the land grant lieu acts, under which it was possible for the railroads to exchange worthless lands for very valuable timber lands, and they have capitalized the value of those as part of their capital account. Let me say, in this connection, that back in 1916, at its fiftieth annual convention, the National Grange, which met here in Washington at that time, adopted a resolution opposing the railroads capitalizing the increase in the value of their land over the price they paid therefor, recognizing that the purpose of those land grants was to keep down freight rates.

I understand one of the purposes of the Federal farm loan act was in helping the small farmer, not that it specifically says so, but one of the purposes was to help the small farmer own his farm and to enable him to produce as cheaply as possible; that is, to reduce his costs of production, so that he could produce not only reasonably cheaply for domestic consumption, but the desire was of those who drafted the bill (and I think it was partly on the initiative of the United States Commission investigating rural credits here and abroad, particularly abroad), so that he could sell his products in the foreign markets as well as here.

The selling price of farm lands used for general staple crop raising, that is, general farming in this country, are higher, I understand, than in almost any other country of the world, and we are going to be very heavily handicapped within five years with out present selling price of farm lands. I cite that, because I want to repeat by our legislation and the enforcement of regulation of the railroads, we can reduce freight rates; we can eliminate many items in the cost of production of agricultural products, but this farm land valuation tends to remain, tends to increase.

Mr. STRONG. I take it you think the increase in the value of farm lands is a detriment to the production of agricultural products to the point where they can not besold abroad?

Mr. MARSH. To where it will be more difficult to sell our agricultural products abroad, and I think it is generally conceded. For instance, down at this conference here last month, of the Farmers Council of National Cooperative Organizations, several speakers said we have got to have this cooperative marketing to compete with products raised on cheap lands abroad. The live-stock growers are feeling it and every farm producer is feeling it.

Then there is another reason for what I want to see in this bill, and that is this: There is pending before Congress what is known as the Norris-Sinclair marketing bill, which stresses one agency or method, in this case a Government agency, to get farmers what they have got to have to stay in the business, that is, cost of production plus a reasonable profit. Now I do not know of any farm organization which really represents the farmers and tries to represent them that does not agree that has got to be the basic principle of agriculture, that in order for the farmers to stay in business they have to get cost of production plus a reasonable profit.

In determining that cost of production, what are you going to figure? What are you going to allow, for instance as a fair value for farm lands? I got the figures from the Census, of the average value of agricultural lands, per acre, and I have selected only a few States here, as follows, Illinois, \$164; Iowa, \$199; Nebraska, \$79; State of Washington, \$60; Texas, \$28; North Dakota, \$35; Maine, \$21, and for Kansas I have got the figures at \$54, although they strike me as a little bit low—

Mr. STRONG. \$62.30.

Mr. MARSH. These are, of course, the 1919 figures; the last figures I had.

Mr. MANSON. That may be misleading. Is it not a fact those figures include, under the average value, all of the unimproved land of the farm?

Mr. MARSH. Oh, yes.

Mr. STRONG. For instance, in Kansas, in my district, I have land running from \$40 or \$50 an acre to \$250 and \$300 an acre, while in districts west of me there are large tracts of land a great deal of which is not improved or cultivated, which run as low as \$10 to \$20 an acre, which decreases the average of the improved farms in the eastern part of the State.

Mr. MARSH. As I say, I am just giving the average, taking the total acres of farm land and the total value of the farm land.

Mr. APPLEBY. How to reach the value? The assessed value, do you mean?

Mr. MARSH. I am taking the figures of the Bureau of the Census.

Mr. APPLEBY. Does that mean the assessed value?

Mr. MARSH. No, this is taking their own values, and what they do is this, they include something which I might point out, which does not make those figures absolutely accurate; they include the value of orchards, irrigation, drainage, ditching, etc., which ought not to be included because they are labor products and not land value products.

Mr. APPLEBY. What I am trying to get at is do they take the assessed valuation in the various States, the taxable valuation, or do they take an expert valuation—what, in the opinion of experts the land is worth? How do they make up that table?

Mr. MARSH. I think they try to put their own valuation on it and then to check it up by all of the available data, in other words, considering the valuation of the assessors, too, in reporting their figures.

Mr. STRONG. I want to say if that is the basis, that in my district land that is worth \$150 an acre is seldom valued for taxation at over \$75 an acre.

Mr. APPLEBY. For assessment?

Mr. STRONG. For assessment. In fact, I think, if I am not mistaken, when I was county attorney six years ago, the value placed on land in my county by the assessors was from \$50 to \$60, while that did not anything like represent its true value.

Mr. MANSON. Another thing I would like to call attention to in connection with the census figures is that in arriving at the average value they take a farm and put a value on that farm, usually based on the assessed valuation, and they then divide that valuation of the farm by the number of acres to get the average value per acre. Now, that farm may have 20 acres of improved land on it and 140 acres of marsh, and the improved land may be very valuable and the marshland worth hardly anything, but it nevertheless all comes in that average.

Mr. FENN. It pulls down the average?

Mr. MANSON. Yes.

Mr. STRONG. In other words, the more marshland the less the average value?

Mr. MARSH. Yes. But despite the value of this marshland or swamp land, the fact remains that there is a very wide difference between the value of farms in different States. I have not been able to attend all of these hearings, Mr. Chairman, nor have I been able to read all the testimony and I do not want to overburden the record—

Mr. FENN. May I ask what is the standard, if I can use that term, made by the census for all of the States, or, for instance, is there one standard for Kansas, another for North

Carolina, and another for some other State, according as the Census Bureau may determine?

Mr. MARSH. My understanding is they attempt to apply some standard. Of course, with a lot of different assessors and men to collect the data, you can not absolutely get at it.

Mr. FENN. What I want to get at is this: In these figures you mention here, you mentioned Iowa, Kansas, and a few other States, and would that selection you made apply imperically, if I can use the term, to the entire country? For instance, would the standard for Kansas used by the Bureau of the Census be the same as the standard for Iowa used by the Bureau of the Census?

Mr. MARSH. I understand, and I want to be corrected if I am in error—

Mr. FENN. In other words, does the same method apply in each State?

Mr. MARSH. They would attempt, in every State, to put a value on the farm of what it would sell for in the open market where neither the owner is forced to sell nor has the purchaser any special interest, except for using the land for what it is good for.

Mr. STRONG. I will say, Mr. Marsh, we have already in the record the table to which you refer.

Mr. MARSH. Then I do not want to again burden the record with it.

Mr. APPLEBY. Will you read, for the benefit of Mr. Fenn and myself, from Connecticut and New Jersey, respectively, what you have there as to the average value per acre?

Mr. STRONG. It is already in the record here.

Mr. FENN. I know I have some farm lands that will run from \$500 to \$600 an acre; they are assessed at that, and yet we have a load of land that would not be assessed at \$5 an acre.

Mr. MARSH. Have you in the record the figures of the Bureau of the Census for the value of all farm property per farm in 1920?

Mr. STRONG. Yes; that is in the record.

Mr. MARSH. There is no use in duplicating, then: I do not want to duplicate, but I just did this little bit of figuring: We have something like 6,440,000 farms in the United States—6,448,000, I believe, to be exact. If we loaned, \$25,000 on every one of those 6,440,000 farms, all it would amount to would be about \$160,000,000.

Mr. STRONG. What?

Mr. MARSH. About \$160,000,000, as I figure it, if we were to loan \$25,000 on each of those farms.

Mr. STRONG. We have not anything like loaned on 10 per cent of them, and we have already loaned over \$600,000,000.

Mr. MARSH. I know you have. Understand, I am just pointing out where we would arrive if we assumed a rather fair loan on the average on all of those farms of \$25,000, and you will see it is quite an item.

Mr. STRONG. But your figures must not be correct, if you say if we loaned \$25,000 on every farm we would only loan \$160,000,000: because we have not loaned anything like \$25,000 on 10 per cent of them, and we have already loaned \$600,000,000.

Mr. MARSH. Let me get that straight; you may have misunderstood me. I said if we should loan \$25,000 on every one of these farms it would be \$160,000,000.

Mr. STRONG. You said million.

Mr. MARSH. I thought I said billion—\$160,000,000,000. Now, I want to give you these figures as to the number of farms, the different sizes, and the value of all farm properties, and also the Department of Agriculture's figures.

Mr. STRONG. We have that in the record.

Mr. MARSH. By size, under 120 acres?

Mr. STRONG. No.

Mr. MARSH. I took these from the figures which they supplied me. In 1920 there were—this is a short table which I will give to the stenographer later, but I just want to point out the difference—in 1920, there were 796,534 farms under 20 acres. The value of all farm property, on the average, was \$3,084, and the value of the farm land was \$1,660 for these farms. There were 1,503,734 farms of from 20 to 49 acres, with an average value for all farm property of \$3,900 and an average land value of \$2,446. You will notice that the farm land value, which I will read, becomes a larger proportion of the total farm value, as the size of the farm increases, particularly when you get up to the big farms. Now for these smaller farms, some of which are near towns, the value of the farm land was \$1,660, on the average, for the farms under 20 acres. The farm land value for the farm of from 20 to 49 acres, on the average, was \$2,446. For the 1,474,753 farms of from 50 to 99 acres, the value of all farm property, on the average, was \$7,583 and the farm land value was \$4,840. The value of all farm property for the 1,449,659 farms of from 100 to 174 acres, on the average, was \$14,419, and the value of the farm land was \$10,049. Then on the 1,006,487 farms of 175 to 499 acres,

the value of all farm property, on the average, was \$26,220, and the value of the farm land was \$19,624.

Now, of these five classifications of farms, which include about 81 per cent of the farms in the United States, the highest average—and I admit this was an average—for the farms of 175 to 499 acres, the value of all farm property, in which is included, of course, live stock and machinery, was \$26,220; which, in a large measure, would be met by a \$10,000 loan. It would not be true of quite all of them.

(The statement in full as submitted by Mr. Marsh is as follows):

"The Department of Agriculture gives the following facts regarding the number, size, average value of all farm property, and value of farm lands in 1920:

Size.	Number.	Value of all farm property.	Value farm land.
Under 20 acres.....	796,534	\$3,084	\$1,660
20-49 acres.....	1,503,734	3,900	2,446
50-99 acres.....	1,474,753	7,583	4,840
100-174 acres.....	1,449,659	14,419	10,049
175-499 acres.....	1,006,487	26,220	19,624
500-999 acres.....	149,812	36,636	27,867
1,000 acres.....	67,387	\$3,054	62,028

"Through the reduction in the selling price of farm products, the selling price of farm lands, especially in districts where there has been severe land speculation, has been greatly reduced. It is doubtful whether over 6 to 8 per cent of the farms in the United States would to-day justify a loan of \$25,000. No such loan should be permitted until the needs of small farmers have been met and farm tenantry ended."

Mr. STRONG. But do you think it is fair, to take the average value of farms as an argument that a loan of over \$10,000 is not needed, in the face of the facts in evidence here, and well known to every man who is informed concerning agriculture, that there are many, many hundreds and thousands of farmers in the United States who have farms worth from \$25,000 to \$75,000, who need to be financed?

Mr. FENN. And need it more, too.

Mr. STRONG. And perhaps need it more than the little farmer, if they are to continue to produce agricultural products as they ought to do?

Mr. MARSH. It depends upon whether you think it is a function of the Government to look after the rich or to help the poor farmer get out of the situation he is in to-day; and also, may I add, whether it is a function of the Government to foster a system which is in aid of agricultural land speculation?

Mr. STRONG. I do not want to aid agricultural land speculation. I am spending my time trying to help out the real farmers and I do not like to have you class with the rich a farmer who from 160 to 240 acres of land that he is living and trying to produce agricultural products upon—I do not like to have him placed in the category of not being a man who should be assisted by the Federal farm loan system that we are trying to have finance agriculture at a reasonable rate of interest.

Mr. MARSH. I would not call him rich as compared with men who invite our criticism generally.

Mr. STRONG. Let us do not go into that.

Mr. MARSH. He is not in the millionaire class.

Mr. STRONG. He is in the producers' class of agricultural products.

Mr. MARSH. Yes; he is in the producers' class of agricultural products, and Rockefeller swears to God in heaven he is in the producers' class, and I presume thinks he is right; but I do call your attention to the fact fact in 1920, we had 2,454,804 tenant farmers, or 38.1 per cent of the total number of farmers. And the way things are going, in the next few years, I think by 1930 half of the farmers of this country will be tenant farmers.

Mr. STRONG. That should be stopped.

Mr. MARSH. That is an estimate.

Mr. STRONG. I think that should be stopped, but do you think a refusal to finance a farmer beyond \$10,000—in other words a refusal to finance the man who has 160 acres of land in Iowa—do you think that will tend to lessen tenancy in the United States?

Mr. MARSH. To be perfectly frank, I think it will very much tend to do that.

Mr. STRONG. Your idea is that the way to break up tenancy in the United States is to refuse to finance the farmer above \$10,000?

Mr. MARSH. I will put it this way: That giving the average farmer a larger amount of long-term credit will unquestionably tend to enable him to hang on to his farm and

sell it at higher prices than he has a right to ask for it and, also, make it unfortunately more difficult for a tenant farmer to get his own farm. Further, take the case of the small farmers who are operating their farms, tenant farmers to-day, who would like to own them. Suppose the man who owns the farm can get an increase in the loan up to \$25,000, he can hold that tenant farmer to a stricter contract and make it more difficult for that tenant farmer to own his farm.

Our present system has brought about a lot of unrest among the farmers. If we establish as a fair normal value of farms that would justify a loan of \$25,000, taking an average, we are going to increase land speculation. I think the Government that is giving its credit at a low rate of interest to the farmers, has a perfect right to say, "Here, you have to stop speculating in farm lands." It is a function of Government to help production, not speculation.

Mr. FENN. To what do you attribute, laying aside the fact that all things are higher as compared with the purchasing power of the dollar—aside from that, to what do you attribute this high value of farm lands in the United States?

Mr. MARSH. Well, I attribute it partly, Mr. Congressman, to the fact that during the war, when costs of production, as well as of labor, fertilizers, farm implements, and machinery, were considerably higher—

Mr. FENN. The lack of fertilizer, you might say, too—the scarcity, rather.

Mr. MARSH. The scarcity, exactly—that the price of farm products was higher for most farm products during the war than they could safely be kept at for a long period of years, and a great many thousands and scores of thousands of farms changed hands on the basis of capitalizing the selling price of these farm products into the selling of the farms, and they knew that those selling prices could not be maintained.

Mr. FENN. Let me ask you this: Do you think the lack of production in European countries or in countries outside of the United States, except in Canada and Argentina, had anything to do with the increase in the value of those farm lands?

Mr. MARSH. It unquestionably had some influence.

Mr. FENN. That being the case, what guarantee is there that this high price of farm lands will be maintained in the future when, if it ever happens, Russia and other parts of Europe begin to produce, as they did before the war, their cereals, and so forth? Would not that tend to decrease the value of the farm lands in the United States; that is, when our export trade, in other words, ceases to be of the magnitude which it has been? You must recollect Europe is flat; it has no production. I am not suggesting these questions critically at all, my dear sir.

Mr. MARSH. No; and I quite agree with you, and I have already done some writing on that subject.

Mr. FENN. But the thing that disturbs me is whether this exceptional condition of the world's affairs and the contributory things to which I attribute the high increase in the value of our farm land and, you might say, in the values of everything—whether there is any prospect that that will be continued. We do know this, that the prices of almost everything have fallen within the last year and half—almost everything. At the same time, from your figures here, I find that the value of the farm lands in Kansas, for instance, my friend Strong's State, have increased.

Mr. STRONG. Oh, no.

Mr. FENN. I thought you said they had gone from \$59 to \$62?

Mr. STRONG. No, his figure of the average price per acre was \$59, and I simply corrected him.

Mr. FENN. They have not increased, then?

Mr. STRONG. No; land has gone down in the last year or two in my district.

Mr. FENN. That relieves me of the apprehension I had in my mind when I asked you the question.

Mr. MARSH. The selling price of farm land has gone down, and I know that the farmers of this country, as a whole, would be infinitely better off to-day if the selling price of the farm lands in the United States, as a whole, was not \$1 more than it was when the great European war broke out. The farmer would be infinitely better off.

Mr. FENN. Everything would.

Mr. STRONG. I do not agree with you there, because in my State in the case of many a farmer who has been operating his farm for the last 40 years the only thing he has been able to accumulate is the increase in the value of his land.

Mr. MARSH. Yes.

Mr. STRONG. And I do not want to rob him of that.

Mr. FENN. Mr. Strong, that is limited, after all. I know a gentleman who died a short time ago, a very prominent man in my State, who was connected with a company which has made loans in Iowa ever since it was Iowa. In fact, some of the loans made there to-day are renewals of loans which were made there first by this man 30 years ago. When I said to him, before the war, "These Iowa farmers have made a

lot of money?" he said, "No; they have not made it by the production of their farms, but they have made it by the increase in the value of their farms, but they have not made a lot," and he referred to some loans on farms, say, of \$2,000, 30 years ago, where his concern was then loaning \$5,000 on those same farms. So I do not see why you should say that the increase in the value of those farms, to those individual owners, was a detriment.

Mr. MARSH. For this reason—

Mr. FENN. I do not quite understand your reasoning there.

Mr. MARSH. My statement was that the farmers of the country, as a whole, would have been better off.

Mr. FENN. Those who wanted to go into farming could buy lands cheaper, probably; but I am speaking of the farm owners, the farmers of the country.

Mr. MARSH. Take those individual farm owners. A lot of them, of course, when the price of farm lands came up to a high figure, sold out and went into the cities. I am not blaming them: our whole system of production of agriculture has been chaotic.

Mr. FENN. They cashed in, in other words?

Mr. MARSH. They cashed in, and our whole system of agricultural production has been chaotic and idiotic. Mr. Strong is quite right that the only way the farmer has broken even, by and large, has been first, by the increase in the selling price of the farm land, and, second, working himself and his wife and children very largely for nothing. I figure that the farmers lost four and a half billion dollars last year, and even with the biggest business concern a loss of four and a half billion dollars in a year would wreck its business.

Mr. STRONG. I want to correct one other statement you made, and that was, during the war, that the farmers got high prices for their stuff. Do you think that the farmer got increases in the prices for his products in keeping with the advanced costs of other commodities and labor and manufactured products?

Mr. FENN. And the cost of living?

Mr. MARSH. No, not in proportion to a lot of those profiteers; he did not profiteer in any sense whatever.

Mr. STRONG. He did not get an increase anything like compared to the increase in the prices of labor and manufactured products, did he?

Mr. MARSH. Yes; the prices of a good many farm products went up approximately, for two or three years, as high proportionately as the price of labor.

Mr. STRONG. We had a restricted price on wheat and corn during the war.

Mr. MARSH. Yes; through the administration of the United States Grain Corporation and Federal Food Administration, that is true; but, at the same time, I am taking farm products as a whole. Some of them did go up. You ask me as to the ratio compared to labor. I say as far as labor was concerned, they are on a parity in some circumstances. As far as manufactures were concerned, the farmer was not in it at all.

Mr. STRONG. He was not in it as compared to labor, either. Kansas lost a lot of her population because it went away to engage in industries which paid better prices for labor.

Mr. MARSH. How much better off were they when they came back?

Mr. STRONG. I do not know; but labor went away from the farms, attracted by the higher prices for labor in other industries.

Mr. FENN. There was one county in my State which absolutely, in the 1920 census, would have lost in population if it had not been for one thing. In that county is a large manufacturing town. That manufacturing town increased 5,000 in population in the 10 years. The gross increase in the county, I think, was 169, showing that they all left; and town after town lost in population out there, according to the last census, but they came into this manufacturing town which kept the county just over the line with an increase.

Mr. MARSH. There were thousands of men employed in shipyards as common laborers at \$8 a day who came directly from the farms to the cities.

Mr. FENN. Absolutely, and this town I speak of was making ammunition and things for the Government and they all came in there and got \$6 and \$8 a day—more than they got before in a week, practically, on the farms.

Mr. APPLEBY. Let me ask the gentleman a question on the inflation in land values. I have been in the real estate business for many years. If you have had inflation in the farm lands throughout the country which you would like to stop, has there not been the same so-called inflation in real estate in the towns and cities throughout the United States, and how would you stop that?

Mr. MARSH. Well, I would stop it the same way they stopped it largely in the city of Pittsburgh, Pa., by gradually untaxing improvements and taxing land values

more heavily. And over in New York City, the legislature passed an empowering act, and the city of New York, through its board of aldermen, under permissive legislation, exempted from taxation all new buildings for living purposes, for domestic purposes, for a period of ten years. And up in North Dakota, where they have had fewer bank failures in proportion to population than almost any other State in the Union, I think in 1917 or thereabouts they practically exempted all farm improvements, as well as city improvements, from taxation, and there has been practically no speculation in farm lands in most of North Dakota.

Mr. STRONG. You are in favor of putting all taxes on the improvements and none on the land?

Mr. MARSH. I would not put any tax on the improvements; I would simply say if a farmer develops his land I would exempt him from a tax on his improvements and I would tax land values of the farmer who does not improve, more heavily.

Mr. STRONG. And follow that in the cities?

Mr. APPLEBY. That has been declared unconstitutional in New Jersey. They put an exemption on all dwelling houses built for so many years and they carried it to the supreme court of the State and they upset it and said the act was not constitutional.

Mr. MARSH. Of course, you will agree, Congressman, the American people have a reasonable degree of veneration for the written Constitution, but they are getting very much more worried over the human constitution and if the Constitution interferes with their human welfare, they are going to change it. I had a chance this summer, perhaps as good as any man, to come in contact with the people around over this country. I was out campaigning twice to the Pacific coast and thousands of farmers and wage earners talked to me after the meetings and I got a good idea of what they were thinking about.

Mr. STRONG. You got an idea of what the radical element was thinking about.

Mr. MARSH. If you admit that, then you have to admit, in view of the numbers of changes that were made in Congress, that the people are dog-goned radical in the last election all over the country, South, East, and West, because I talked to the fellows who made the changes and helped in the election of some of the new Members who are coming in after the 4th of March.

Mr. STRONG. Thank goodness, the fellows you helped in my State were not elected.

Mr. MARSH. I would like to ask the distinguished gentleman what happened to the Chairman of the Committee on Rules. I understood he was defeated.

Mr. STRONG. He was defeated in the primaries by a Republican; but another Republican was elected.

Mr. MARSH. I am not a partisan. Thank God all parties look alike to me.

Mr. STRONG. Except the Farmer-Labor Party.

Mr. MARSH. I am not a member of the Farmer-Labor Party and never have been.

Mr. MANSON. Does not the fact that the Farm Loan Board has indorsed the limit of \$100 an acre for the land on the amount of the loan that they would make, offset any tendency to use this system for speculative purposes?

Mr. MARSH. No; not by any manner of means, as I see it.

Mr. STRONG. What do you think the limit ought to be?

Mr. MARSH. I do not know that I can give an exact limit, but I point out that they can loan on farm land to the extent of \$100 an acre, answering your question, Mr. Manson. If the Farm Loan Board can loan on land to the extent of \$100 per acre, then as under the law they are allowed to loan only 50 per cent of the estimated value of the land—am I correct—and 40 per cent of the value of the improvements, the assumption is they can loan on farm land up to the value of \$200 per acre.

Mr. MANSON. That is it exactly.

Mr. MARSH. And that is absolutely uneconomic in principle for farm lands for general farming.

Mr. STRONG. What do you think the price ought to be for farm lands?

Mr. MARSH. I certainly realize this—I am talking now just of the bare farm lands; not orchards, or irrigation, or drainage, or any of those things—certainly a maximum of \$100 an acre would be much sounder than \$200 or \$300 an acre.

Mr. STRONG. What is the farmer to do who lives in a community in Iowa where land all around him is worth, \$200, \$300, and \$400 an acre; what is that man to do if he wants to buy a farm for his son—send him out of the State?

Mr. MARSH. No; he will have to take his medicine the same as any other speculator. It is the business of the Government to finance the production of farm products; it is not a function of the Government—I am not a Socialist, and therefore I want to emphasize this—it is not a function of the Government to finance speculation in farm lands.

Mr. STRONG. Then you are in favor of deflation in farm lands?

Mr. MARSH. I do not say I favor any such drastic proposition as that.

Mr. STRONG. You do not think they ought to be over \$100 an acre?

Mr. MARSH. I say it would be much better for the producers of the country, as a whole, if farm land used for general farming (not for orchards and not for truck gardening, but for wheat raising, cotton raising, raising potatoes and live stock), did not exceed \$100 an acre. And I do not believe you can find an economist or many small farmers who won't agree with that statement.

Mr. MANSON. Mr. Marsh, if you take a community where the price of land, regardless of its value, is \$250 to \$300 an acre, you certainly can not do any speculating in that land through loans that are made on the basis of \$100 an acre, can you?

Mr. MARSH. Why, it would depend, I would say, partly upon whether Congress makes an increase at this time of from \$10,000 to \$25,000 in the amount which can be loaned, which will lead them to say, a decade ago, roughly, we established this farm land system on the basis of \$10,000 and in 10 years, a decade, we have jumped it to \$25,000. If we increase in the same percentage, in another decade we will be loaning two and one half times \$25,000, which will be \$62,500 to a single borrower. And I realize absolutely the effect upon a person, not farming but in selling farm lands, the effect of thinking he can keep increasing the amount which he can borrow and at a low rate of interest.

Mr. STRONG. You are against increasing the amount from \$10,000 to \$25,000?

Mr. MARSH. I am against it at least until this Government can take up the roughly four billions of long-term mortgages which are outstanding now on farms operated by their owners.

Mr. STRONG. You are against it in this bill, now?

Mr. MARSH. I am against it now, absolutely.

Mr. STRONG. Do you not realize—you say we started 10 years ago with this system to finance the farmers to the amount of \$10,000 and now we want to increase it to \$25,000—don't you realize 10 years ago when we started this system we had given the joint-stock banks the right to loan more money than that and they are now loaning up to \$50,000?

Mr. MARSH. I understand that.

Mr. STRONG. And do you not think the farm loan banks ought to have a right to compete with the joint-stock banks, which are private, profit-making institutions?

Mr. MARSH. No; I think it is the function of the Government to help the weakest and not to help the strongest.

Mr. STRONG. We are already helping the strongest with the joint-stock banks.

Mr. MARSH. All right, if you are already helping the strongest with the joint-stock banks, then there is certainly no necessity to increase the maximum loan you can make under the farm loan bank system.

Mr. STRONG. We would like to help build up the farm loan bank system and put it in competition with the joint-stock banks.

Mr. MARSH. Moreover, I think there is this aspect to it, Mr. Strong; I would like to emphasize we are getting away from the idea of speculation in farm production. You would be astounded, I am sure, and delighted, to know how many farmers feel the Government has to handle their crops for quite a while; they do not want to have to rely upon working their wives and children to death and increasing farm lands for the love of it.

Mr. STRONG. Do you think that is a function of the Government—

Mr. MARSH. I certainly do.

Mr. STRONG (continuing). To handle the marketing of farm products?

Mr. MARSH. Yes. As Herbert F. Baker (Republican State senator, who ran against Townsend; he did not quite beat him in Michigan, but very nearly), said when appearing before the Senate and House Committees on Agriculture, the distribution of food is as much a governmental function as is the distribution of mail, and I entirely agree with him in that statement. The world is coming to that, slowly but surely.

Mr. STRONG. There is a difference between distributing food and distributing the mails.

Mr. MARSH. Precisely, and this marketing bill is designed to give the farmer what I say the farmer should ask and get, cost of production, including $5\frac{1}{2}$ to 6 per cent on his investment, plus labor costs, plus equipment and fertilizers; but then also to ask to get an increase in the selling price of farm lands is something I do not think the farmer should ask.

Mr. STRONG. I think if he does not get a better profit than 5 to 5 $\frac{1}{2}$ per cent he will be disposing of his farm and loaning his money out to somebody at 5 $\frac{1}{2}$ per cent and have no worry or bother.

Mr. MARSH. Call it 7 per cent; I was figuring on the rate of interest he pays and other costs, plus a good return on the labor of his family.

Mr. STRONG. I would be glad to have him have it, but let us get back to this bill.
Mr. MARSH. I would like to quote, with Mr. Corey and Mr. Manson here, from a very conservative farm paper, known as the Country Gentleman, which has never been accused of any exaggerated tendency to radicalism. There is an article in the issue of December 30, entitled "What is farm credit? Farmer, banker, and politician seek the answer. By E. V. Wilcox." There are only a few lines I would like to quote, bearing directly on this proposition. [Reading:]

"The census estimate of the total value of all farm property—land, buildings, machinery, and live stock—in 1919 was about \$78,000,000,000. The subsequent decline in land values has perhaps reduced this sum to \$72,000,000,000. How much money has been lent against that sum? 'The best estimate we can make,' said V. N. Valgren, of the United States Department of Agriculture, 'is \$7,000,000,000 in the form of mortgages, \$3,750,000,000 in bank loans to farmers on personal security, and \$1,250,000,000 as private or personal loans, making a total of \$12,000,000,000 indebtedness of farm property, or about 16 per cent of the total value.'

"WHEN LOANS HURT THE BORROWER."

"What do bankers think of agriculture as a loan opportunity? 'There is enough money in local banks right now,' said P. W. Goebel, president of the Commercial National Bank of Kansas City, Kans., 'to ruin all farmers by overexpansion of loans. The real credit problem is not how much but what for? I have in mind a 160-acre farm on which \$2,000 was considered a big loan 20 years ago when the farm was worth \$6,000. Three years ago the farm sold for \$18,000, and the buyer came to me to borrow \$10,000 on it. That would make interest, taxes, and repairs total more than \$1,000 a year. And the farm wouldn't bear it. Therefore I had to decline the loan. We soon reached a limit beyond which it is unkind to the borrower to lend further. For 30 years I have lent money to buy cattle for feeding and have myself been in the feeding business. But I refused to lend money to speculate on poor feeder cattle in the Panhandle country at 14 cents a pound.'

I just cite that. I do not know Mr. Goebel; maybe the chairman does, but he is not a radical or they would not quote him in this magazine. But I point this out: Take the farm land situation in the country as a whole, and I am going to stick to the Government figures—

Mr. APPLEBY. Let me ask you a question there: Is the gentleman in favor of any of the provisions of the bill?

Mr. MARSH. I want to ask some questions about two or three of these provisions a little bit later, after I finish this, or I will take it up now if you would rather have me do so.

Mr. APPLEBY. No, but I was just wondering whether there was any provision of the bill of which you were in favor.

Mr. MARSH. I am not in favor, I can say in passing, of any provision which will take from the farm loan associations the initiative and control to which they are entitled, but giving consideration to the rights of the general public who supply the cash. They have to be considered, too.

Mr. APPLEBY. While we are on that clause relative to the selection of the directors, are you in favor of the bill as drawn, or what suggestions have you to make on that?

Mr. MARSH. Frankly, in that connection, I want to ask why the change was made from the existing law?

Mr. APPLEBY. Mr. Strong, no doubt, can answer that.

Mr. STRONG. What is it?

Mr. MARSH. I want to ask, in reply to a question whether I favor section 2 as to the selection of the board of directors of the farm loan bank, why the change was made from existing law? I do not know.

Mr. STRONG. The suggestion has been made that the Government should retain its supervision over the system, in the interest of making it possible to sell the bonds at a low rate, in order to furnish the farmer the money at the lowest possible cost. In other words, it is thought that it will not be best for the system to place it in the hands of the borrower, but we are trying to let the borrowers and the Government have an equal number of directors retain Government supervision in the interest of the system.

Mr. MARSH. Well, as I explained in answer to Congressman Appleby's question, he asked me what I thought of that, and I said I wanted to ask a question of the introducer of the bill and also to get any light the committee could throw on it as to why that change was made.

May I ask this question, further: Has there been any indication in the practices of the local cooperative organizations of farmers, organized under the Federal Farm Loan Act, that they were inclined to misuse the power given them, or to abuse it?

Mr. STRONG. They have never exercised the power, so far; the system has remained under the control of the Government Federal Farm Loan Board. But there is a very general lack of interest in the cooperative farm loan associations after the members have secured their loans, in some cases to such an extent that they do not meet and help the other farmer get a loan and, in some cases, the cooperative farm loan associations have gotten into the hands of bankers who do not assist it to make loans. And it is a question whether or not, if the system itself were placed in charge of the cooperative associations, men who only had a very small investment—whether or not that interest would be taken which would cause the banks to function, as they function now. The intention of the bill is not to take the interest away, but to leave them to select a part of the directors and to leave the government in the position of being able to keep its supervision of the system.

Mr. MARSH. Who would select the umpire, so to speak, the seventh member?

Mr. STRONG. It is generally supposed the six representatives of the district will agree, and I think, in 90 cases out of 100 they would. But, in case there was some deadlock, the chairman of the Farm Loan Board, under this bill, would cast the deciding vote.

Mr. STEVENSON. The farm loan commissioner is the man who would cast the deciding vote in a case like that.

Mr. MARSH. I so construe section 2, page 4, that the purpose was—and please correct me if I am in error—to leave the final determination with the central body here.

Mr. STRONG. If there should be a deadlock.

Mr. MARSH. With the Farm Loan Board, under this bill, would cast the deciding vote.

Mr. STRONG. Yes.

Mr. MARSH. To what is the very large increase of the amount of loans placed during the past year by the Federal land bank system attributable?

Mr. STRONG. To their ability to sell bonds.

Mr. MARSH. But, of course, there has to be somebody to apply for the loans. They could sell the bonds, but that would not mean they would make the loans.

Mr. STRONG. Yes, and they could not make the loans if they did not sell the bonds.

Mr. MARSH. Quite so, and I am trying to get at whether there has been any concerted effort on the part of those cooperative associations to get through loans which they did not make before.

Mr. STRONG. Oh, there has been a great demand for the loans. In fact, there are a lot of farmers who would like to have them now, that do not get them.

Mr. MARSH. What size loans?

Mr. STRONG. All kinds of loans, from \$500 up in my district. I have one county in my district that has not a farm loan association; I have other counties where the farm loan associations do not function. The farm loan association to which I belong is functioning splendidly and loaned over \$200,000 last year, but what we want to do is to get all the farmers to have an opportunity to get loans in this system, if they want them.

Mr. MARSH. I got a letter from Commissioner Lobdell, to whom I wrote regarding the average size of the loans placed last year by the Federal farm land bank system, in which he stated it was about \$3,000.

Mr. STRONG. Yes.

Mr. MARSH. I wondered why, Mr. Strong, that a lot of the farmers in your district, as I understood you, had not been able to get loans; whether it was due to the fact money was not available or whether it was due to the fact they were undesirable loans.

Mr. STRONG. No; a lot of them do not know of this system, or, if they do know, they are unable to get the loan easily. In some places where they go to the farm loan association, the directors do not meet and they are not served, and after waiting a reasonable length of time, they borrow of a mortgage banking concern. In other cases, they have no farm loan association to go to.

Mr. MARSH. Will this bill changing the control of those local organizations make it easier, in your judgment, for the small farmer to get a loan?

Mr. STRONG. It does not change the operation of the system as now managed; it simply continues the present Government supervision the same as it has been, only it gives the farmers in the association an opportunity to elect three of the directors of the banks.

Mr. MARSH. What is the idea of this part of the bill, then?

Mr. STRONG. To continue the Government supervision.

Mr. MARSH. Is there anything which would terminate the Government's supervision if this bill were not enacted?

Mr. STRONG. Well, the original law provided—you probably have not looked the matter up—but the original law provided when the borrowers had stock in the banks

to the amount of \$100,000 they then should take control. But four years ago, I think it was, the Government invested \$200,000,000 in the bonds of the association and put a clause in the law then that until that money was repaid or those bonds were taken up, that the Government should continue its supervision, and it has continued it ever since. Now, the question is whether or not it will relinquish that supervision or whether it should be continued, and the intention of this provision is to continue that Government supervision.

Mr. MARSH. It was not clear that the Government supervision would end now, automatically. Is that the case when the bill passed?

Mr. STRONG. It was to cease when the \$200,000,000 worth of bonds were taken up and the borrowers in the different banks have an investment of \$100,000.

Mr. MARSH. When is that apt to happen?

Mr. STRONG. It might happen within a year. I can not tell you when it will happen.

Mr. MANSON. The \$100,000 limit has been passed, in the most cases, by all of the banks.

Mr. STRONG. Then if the borrowers have acquired the capital of the banks to the extent of \$100,000, as the gentleman says, the only thing that is preventing the control from leaving the Government is the bonds that the Government has bought and placed in the Treasury, and when those are redeemed the Government has to relinquish control. Now the question is whether it is best for the system for the Government to do that, or not. Some think it is, and others do not.

Mr. MARSH. I do not yet quite see whether there is a charge of incompetent management behind it.

Mr. STRONG. Nothing of that kind at all. The only question is whether or not it is better for the Federal farm loan system for the Government to continue its control and management, or whether it should be turned over to the borrowers. That is the situation.

Mr. MARSH. That is, whether the Government, as representing the depositors, so to speak, the investors, the purchasers of those bonds—

Mr. STRONG. Nothing of the kind; but whether it is best for the farmers that the Government should maintain its supervision over the system, or whether it should be turned over to the borrowers to manage it. Some think it would be much the best to turn it over to the borrowers to manage it; others think, that because of their small investment, there will be a lack of interest and that they won't give the supervision and safe management now given through the Government Federal Farm Loan Board, and so lose the confidence of the bond-buying public and be unable to sell the bonds. There is the difference, as I understand it.

Mr. MARSH. Well, if the farmers are supposed to have such excellent business judgment that they can be allowed to increase the loans they get from \$10,000 to \$25,000, would not the expectation be that they had enough business sagacity to administer their own affairs?

Mr. STRONG. There is not any doubt about it. It is not a question of their ability; the question is whether the man who needs credit and borrows \$25,000, or say, \$10,000, and takes a \$500 interest in a bank—whether he is going to neglect his farm, in which he has invested the \$25,000, in order to care for his \$500.

Mr. MARSH. Who will suffer most if his investment is not looked after?

Mr. STRONG. Why the man who follows him and wants to borrow money.

Mr. MARSH. And not the present borrower?

Mr. STRONG. No; I am a borrower in a Federal farm loan bank. I borrowed \$5,000 on my farm. I have a \$250 investment in the Federal farm loan system. I did not go into the system for the purpose of taking an investment of \$250; I went into it for the purpose of getting this \$5,000 amortized loan on my farm. I never go to the association meetings or pay any attention to its management, and I do not think any other farmer does in my community except the secretary, treasurer, and perhaps the board of directors when he asks them to attend a meeting. Now the question is, what is best for the association, for the system, and for the farmers of the country at large; whether the retention of Government control is better or not. That is what this committee is trying to determine.

Mr. MARSH. And I understand the Federal Farm Loan Board itself has recommended this?

Mr. STRONG. The Federal Farm Loan Board, Mr. Herbert Quick, and Mr. Lever, who formerly served upon it. The presidents of the Federal land banks and practically all who have been interested in management of the system are in favor of and believe the Government should retain its supervision.

Mr. MARSH. Practically a veto control.

Mr. STRONG. Practically. But there will be no supervision of their decisions as to the seventh member unless the six members fail to agree. Now, let us be fair about

it. Some men have argued here that the Federal Farm Loan Board would use its controlling power for the purpose of instructing the three members they would name in the first instance to disagree with the three members named by the farm loan association, and thus give them a chance to name the seventh member. Others of us believe that the Federal Farm Loan Board will never exercise that power except the six directors disagree because of some vital interest of a bank; that is, where some men might seek to get control of a bank for purposes not best for the system. For instance, it has been suggested that some one might start a campaign of repudiation—refusal to collect or foreclose on mortgages—if he was elected president of the bank, and if he could control the three members elected by the farm loan association by a campaign among them which would give him their three votes, it might be necessary in that case, to exercise the power given to the Federal Farm Loan Board to vote against that member, because it is not thought that the bond buyers, who buy the bonds, will continue to regard the bonds as a safe investment if there is any thought or any policy adopted of not collecting or foreclosing the loans.

Mr. MARSH. Well, would it be your idea, then—and I am trying to get an expression of your opinion, Mr. Strong—that the effort to retain the control of the system in the hands of the borrower was something analogous to the plan of having the Government acquire the railroads and turn the management over to the men working on them.

Mr. STRONG. Well, it is not an analogy at all; but I certainly would be very much opposed to the public acquiring the railroads and turning them over to the men to manage in their interest, and the rest of the public pay the bill.

Mr. MARSH. Would you assume, then, this proposal, if I understand you, is something along the same line?

Mr. STRONG. I would not think anything of the kind. This is a governmental agency set up for the purpose of helping the farmers of the country to amortize their loans at reasonable rates; and, having studied the question a good deal, I believe the farmers will be a good deal better served in this country if the Government retains that supervision. The only people who have appeared against this proposition is the organization that represents about 300 of the 4,600 farm loan associations.

Mr. MARSH. Well, I answered the question.

Mr. APPELBY. One other question, right on the same line—Mr. Strong about covered it: If the sale of these bonds has been very successful and has been managed practically by the Government, the Government being behind it, is it a good policy to change the machinery at this time, when the bonds are selling at better than par?

Mr. MARSH. Well, I will say your question can apply to both the provision as to administration and the provision as to increasing the size of the loans.

Mr. APPELBY. No, irrespective of the size of the loans. I am getting back to the original proposition of the selection of the odd man. If the Government, through their farm loan board, or the Federal board of directors, is allowed to select the seventh man, they will be continuing business under this new act on the same basis they have continued it since it was organized, and I am asking you whether that, in itself, is not a good argument in favor of the seventh man being selected—if a contest arises—practically by the Government, who is behind the proposition?

Mr. MARSH. I would say it might be; but, on the other hand, it is an open question whether the farmers' continuous and really effective interest would be better obtained if his local organization had control or if the Government had control.

Mr. STRONG. That is the question before us. I have farmers in my district who are absolutely competent to manage one of these banks; there is no doubt about that; but they will only have a small interest like I have. The most any man can have now is \$500, and the majority of them would only have \$300 or less, and it is doubted if with that kind of an interest they will spend a great deal of time, thought, or study in the management of a system of this kind.

Mr. MARSH. They could not do it as a commercial proposition, but might not they do it as what you might call a community board?

Mr. STRONG. I do not know whether they would or not.

Mr. MARSH. I do not either.

Mr. STRONG. I will say I have been associated with telephone systems, cooperative farmers' telephone systems, and they never functioned except where there happened to be some man in the community who, regardless of his small interest, was willing to spend his time in its management, and who was competent. Where there was that kind of a man, the cooperative telephone system has worked; but, in many, many instances where there was not that kind of a man, the system has gone to pieces.

Mr. MARSH. I would say, personally, I do not want to commit myself on that; and the Farmers National Council has not taken it up, except to give this expression to the situation, that we believe the largest possible amount of local control should be retained in these associations because there is more and more a feeling on the part

of the farmers, as I meet them over the country (I can not speak generally), that there is too much centralization of power down at the National Capital, and they can not get here.

Mr. STRONG. That is all right; but in this case if it had not been for that Government supervision at the National Capital of this system it would not have functioned and farmers would not have gotten cheap money for farm loans.

Mr. MARSH. That is true.

Mr. STRONG. Now the question is whether we are going to continue it or are going to go off in a new field, unexplored.

Mr. MARSH. I assume that is the chief question you really have before you.

Mr. STRONG. Yes; whether it is best to relinquish the Government's supervision of this system that is now functioning so splendidly or not. It is perhaps not the chief question; I think the chief question, possibly, is increasing the amount to \$25,000.

Mr. MARSH. I want to conclude in a few minutes on that and answer Mr. Appleby's question.

Mr. STRONG. There is another question I would like to have you express your views on, and this is in this bill we have provided for the appointment of agents to make these loans. That has been, you might say, a hobby of mine. I introduced such a bill nearly four years ago. The reason is this: Out in my district we have a farm loan association in Washington County functioning very finely. It is the one to which I belong; it is an unusually well-managed farm-loan association, but we have some that do not function at all. The farmers write to me they can not get them to hold a meeting and can not get their loans acted on, and what I would like in such a community where the present farm loan association is not active and it is hard work for the farmers to get loans, or almost impossible, is to have the Federal farm bank given authority to appoint an agent and cut out the red tape, so the farmers can get loans without the least possible trouble. That provision is in the bill; what do you think about that?

Mr. MARSH. Of course, I studied the bill and I read some of the arguments. I think the tendency of a provision of that kind is to centralize the administration.

Mr. STRONG. Where?

Mr. MARSH. Here.

Mr. STRONG. No; it is the farm-loan banks that would appoint those agents.

Mr. MARSH. I do not mean here in Washington, but it would be under the 12 districts.

Mr. STRONG. You have to get your money from those 12 banks?

Mr. MARSH. Yes.

Mr. STRONG. You go there anyway, and what difference would it make whether you should go there through the farm-loan association or the agent?

Mr. MARSH. That agent is directly responsible to the bank, and not to the association?

Mr. STRONG. He does not function through the association.

Mr. MARSH. He has nothing to do with it; he is independent.

Mr. STRONG. He is appointed by the bank?

Mr. MARSH. Entirely as an agent to place loans.

Mr. STRONG. Yes; the purpose is to make loans to farmers.

Mr. MARSH. Well, if I understand you, in some of the cooperative organizations under this act the farmers have not been able to get loans?

Mr. STRONG. Yes.

Mr. MARSH. A good many farmers have complained from all over the country that they could not get loans?

Mr. STRONG. Yes.

Mr. MARSH. I do not know, statistically, how many of them there are, but if they can not get loans through their existing organizations, what is the use of duplicating the agency to make loans if they can not get together?

Mr. STRONG. They could get them if the farm-loan associations would function, because there is plenty of money; but if the farm-loan associations do not function or there is no association, then under this provision, the bank can appoint an agent to make loans, the same as every other loan association does, including the joint-stock banks.

Mr. MARSH. You come right back, then, to the proposition whether the farmers are enough interested in this proposition to put enough of the individual effort which has got to be put in it to operate it and make a success of it.

Mr. STRONG. The farmer is just like anybody else; he is interested in his own business. If he makes a loan under this system, to make that loan he has to take 5 per cent in the stock of this bank, a very small amount. After he has got the loan—and that is the purpose for which he joined the farm-loan association—the question is whether he is going to continue to attend the meetings and going to be interested

enough to help other farmers to get their loan. It depends upon the individual. In some communities it works very nicely, and in others it does not. I would like to have the farmers served in a community where there is no farm-loan association, or where there is one which is not functioning, or where there is a farm-loan association which has gotten into the hands of a farm-mortgage banker, just as well as those who happen to be favorably located in a community where there is a splendid farm-loan association like the one to which I belong. In other words, I want this system to function so that all the farmers can borrow from it.

Mr. MANSON. I would like to call your attention to the fact that under the existing law it does not require a meeting of the association to pass on the loan, nor does it require a meeting of the association to vote the stock of the association. Both of those things are passed upon by the directors.

Mr. STRONG. Yes. But it is in evidence here that there are some farm-loan associations formed within families who after they got their loans, said, "We won't let anybody else in; we do not want to be responsible for anybody else's loan," and they closed the doors.

Mr. MARSH. That would be an exception, of course.

Mr. STRONG. That would be an exception, but we want to reach the farmer in that community. In other words, is there any reason why this system should not serve the farmers of this country easily and quickly?

Mr. MARSH. No; that is what it is intended to do.

Mr. STRONG. And that is what the appointment of the agents is intended to do. I want to ask you if you can see any objection to it.

Mr. MARSH. Is there any reason for not starting another association in that same territory?

Mr. STRONG. But the farmer has to go and get nine other farmers whose loans are ripe and ready to be renewed. Sometimes that is hard work. Now, there is an instance in one of my own counties where they tried to form a farm-loan association. The joint-stock bank, when they got almost the required 10 farmers, went to 2 or 3 of the farmers and made the loans quickly.

Mr. MARSH. Small loans of \$10,000?

Mr. STRONG. Under \$10,000, of course—and they could not get a farm-loan association formed, and there is none in that county to-day. I think those farmers wanting loans should have an opportunity to be served and the only way I could plan to do it was to let the bank appoint agents. There is not going to be any need for the bank to appoint agents where a farm-loan association is active and serving the farmers.

Mr. MARSH. What is to prevent their doing it?

Mr. STRONG. Because the law does not provide they can do it.

Mr. MARSH. Who is to decide whether the farmers are being served or not?

Mr. STRONG. I suppose the farmers themselves. If they apply to a bank for the appointment of an agent, it will appoint one.

Mr. MARSH. Could not this agent be authorized, or the bill be amended so as to authorize him, to organize this association?

Mr. STRONG. No; but we have provided in this bill when 10 farmers make such loans they can form an association if they want to.

Mr. MARSH. And this agent could help to organize them?

Mr. STRONG. It is not a part of his duty, but there is nothing to interfere with it.

Mr. COREY. And he then would become secretary-treasurer of the association.

Mr. MARSH. I would see no objection to the agent working to organize these local farm loan associations; but if he went in there to attempt to discredit them—

Mr. STRONG. Oh, nothing of that kind.

Mr. MARSH. Not so much to discredit, as to discourage.

Mr. STRONG. No, no! The purpose is to get the money to the farmer with the least possible trouble, and to cut out as much red tape as possible.

Mr. APPLEBY. Let me ask a question of some one; I do not know whether you can answer it: What percentage of these farm loans is accepted and what percentage is declined? Can any one tell us?

Mr. COREY. I can tell you approximately, Mr. Appleby. Approximately, of all the applications received by all of the 12 Federal land banks, a little over one-third are rejected for one cause or another—eligibility of the borrower, insufficiency of the security for the amount to be loaned, or for such other reasons as may exist.

Mr. MARSH. Mr. Chairman, I want to say just a few words with reference to this first matter that I took up, the value of farm lands, in further explanation of our reason for opposing the increase in the amount that can be loaned at this time from \$10,000 to \$25,000, and to make it clear that there is an agency now, which, to a greater or lesser extent, meets the needs of the farmers who have got to make a loan of more than \$10,000. If this estimate of Mr. Valgren's, of the Department of Agricul-

ture, which I quoted from this article in the Country Gentleman, is correct, there are to-day about \$7,000,000,000 of long-term indebtedness outstanding to-day against farm values as mortgages. I understand that the total amount loaned under the Federal land bank act is, roughly, \$550,000,000 to-day. We believe it would be better and more helpful to the millions of tenant farmers to be home owners, and the small farmers, if we could get some action—I do not know just how it is going to be done; it is a legal proposition—so that the Government can take up those long-term mortgages, or part of the six and a half billion, particularly those out on the small farms, at a low rate of interest and help those fellows to pull through; because, as you know, there are literally tens of thousands (I have seen an estimate putting the amount literally at hundreds of thousands) of farmers who are going to have their farms taken away, their equities wiped out, by having these mortgages called. I did not prepare the figures, but I got them from people who appeared before the Senate and House Agricultural Committees on this marketing bill of Senator Norris and Mr. Sinclair. We would recommend that, if it could be done.

Mr. COREY. Do you not know, as a matter of fact, that the man most in need to-day of the use of this Government agency is the man who needs a loan in excess of \$10,000, rather than the small farmer, for the reason that, in the inflated period, he enjoyed extended credits based on high farm commodity values, and there has been a precipitate deflation and he is left with a great burden of debts; and the most important thing for American agriculture to-day is the amortization of those debts over a long period of years, at the lowest possible cost, in the best agricultural producing sections of America?

Mr. MARSH. I will not agree with all of the statements Mr. Corey has made. I do not believe it is the function of the Government to take care of the land speculator.

Mr. COREY. These men are not land speculators.

Mr. MARSH. I would like more details. I have been all over the country myself. I know there are farm owners in Illinois who wanted as high as \$15 an acre rent a year. I do not know whether they have borrowed or not, or whether they are in debt or not; I know out in Iowa they have unconsciously speculated in farm lands, and the same in Nebraska, and in several of these Middle Western States, and I do not regard it as a function of the Government to uphold that sort of speculation.

Mr. STRONG. This system expressly provides that it shall not loan money to that class of speculators, but shall only loan money to increase agricultural production. We are not loaning money to landowners who do not personally manage their farms under this system; it is expressly prohibited.

Mr. MARSH. I know some cases where men have bought farms for big prices and made a little payment, and they saw they could not break even. What did they do? They went—and this is what the men who knew the conditions intimately told me—they went to the men from whom they bought the farm and—say they paid down a thousand dollars—they said, "Take your damned farm back," and then they were able to buy it back for half of what the fellow sold it to them a few years before.

Mr. COREY. You are citing an extreme case.

Mr. MARSH. Yes, perhaps.

Mr. STRONG. That happens in all lines of business?

Mr. MARSH. Yes.

Mr. COREY. You are not penalizing the business man, because he was improvident, and why should you penalize the farmer?

Mr. MARSH. I do not want to penalize the farmer as a producer.

Mr. STRONG. Here is another question I would like to submit to you: It has been stated before this committee that out in the cattle and sheep country it is necessary to have enough land to maintain an economical cattle or sheep ranch so that the investment gets up into \$50,000 or \$60,000, and that these men, having had their herds depleted by the deflation of 1920, find it necessary to borrow money to restock their ranches, and that these men need a loan above \$10,000. What do you say about that situation?

Mr. COREY. And adding to that, Mr. Strong, if you will permit me, that those men have no access to the farm mortgage companies, and are now paying rates of from 8 to 10 per cent.

Mr. STRONG. The average farm loan bank does not go out in those sections and we have been appealed to to assist the stockmen.

Mr. MARSH. For what purpose are the loans to be made?

Mr. STRONG. To restock their depleted herds.

Mr. MARSH. That is the production of stock?

Mr. STRONG. Certainly.

Mr. MARSH. That ought not to be handled through this system.

Mr. STRONG. But there is no other way to handle it now.

Mr. MARSH. I am not an authority in either political party, but all I can say is that if this dominant party has not the brains to put through a system, it is up to them and not up to me.

Mr. STRONG. Let me suggest to you, even if they had the brains of men like yourself, that they could use and would try to put through something to help that situation, various men like yourself would come before the committee and object to this and that clause of the bill and want to obtain the relief in some other way. Now we have been asked by the farm organizations and farmers in our respective districts to raise this amount to \$25,000.

Mr. MARSH. Yes.

Mr. STRONG. All of the farm organizations have asked for it to be done—

Mr. MARSH. Yes.

Mr. STRONG (continuing). But you come before the committee and insist it will tend to inflation of land values, which you want to stop, and you are opposed to it.

Mr. MARSH. And even if you could get your intermediate credits, Mr. Strong, you know upon that kind of security the rate is necessarily going to be higher than the long-term land loan.

Mr. STRONG. You know, moreover, I have been working on the intermediate credits and the short-time credits for farmers ever since I came to Congress, and you know I am prepared to go along with any bill anyone will bring along to work out that situation, and you also know the rate is going to be higher than the rate charged the farmers in the Federal farm loan bank, because it is a personal loan, and not an investment in real estate.

Mr. MARSH. Then would you favor, in increasing the amount to \$25,000, limiting the object to which the loan could be applied, namely, to production, and not to have any of it applied on real estate?

Mr. STRONG. You mean not to buy farms with?

Mr. MARSH. No; not to handle any real estate mortgages.

Mr. STRONG. Oh, absolutely. It is not for speculative purposes. I want to say this to you, in fairness, that in this bill there is a clause increasing or broadening the scope for which the money may be borrowed to include the present indebtedness of the farmer.

Mr. MARSH. Precisely.

Mr. STRONG. Now, it has been suggested to the committee that that might let the farmer make an investment in oil stocks or to purchase a limousine, or make some other investment outside of agriculture and borrow money to pay for it and then apply to the farm loan bank for a loan to meet the debt, and we are trying to prohibit that; but we do not want to exclude the farmer, who through the deflation since the war, may have gotten in debt—we do not want to exclude him from coming to this system and amortizing his loan and eventually paying it off, but it is a situation fraught with some difficulty. In other words, Mr. Marsh, this bill is not related to the intermediate credit proposition, but this is for simplifying the system for loaning money to the farmers on real estate and as we get the money by the sale of bonds secured by farm mortgages and we get it very cheaply now we do not want to do anything to hurt the market for those bonds; we want to do everything we can to enable us to sell those bonds more cheaply and to serve the farmer at a reduced rate of interest. We did reduce the interest last June, from 6 per cent to 5½ per cent, and we hope again to reduce that interest this year, and we would like to serve the farmer who is now in debt in order to enable him to amortize his loan, pay out, and continue a producer.

Mr. MARSH. Well, Mr. Strong, I think that the economic laws remain the same and I am talking to those and I would like to point out that you really have an intermediate credit or a production credit system tied up with this long-term mortgage system.

Mr. STRONG. I hope we will have some good system of that kind.

Mr. MARSH. You have now, as far as live-stock production is concerned, but you know this United States commission on long-term credits and land mortgages and general agricultural credits strongly advised against such a combination. Their exact phrasing was—after discussing short-term credits and long-term credits, they said, "In the opinion of this commission, these two general classes of credits must be largely segregated, although the two systems will naturally touch at many points." And you really have now under the present Federal farm loan act a combination of the two as far as live-stock production is concerned.

Mr. STRONG. Under the Federal farm loan act?

Mr. MARSH. Yes; they can make loans on live stock.

Mr. STRONG. Oh, no.

Mr. MARSH. Unless I am greatly mistaken.

Mr. MANSON. No; they can not.

Mr. STRONG. No; this is only for loaning money on land.

Mr. MARSH. Is not the six-months live-stock proposition in there?

Mr. STRONG. Oh, no; nothing under 34½ years.

Mr. MARSH. I understood you to say there was an arrangement this was to be used.

Mr. STRONG. No; I said it has been advanced as an argument to this committee for increasing the amount of money that can be loaned on land, that in the West and in the stock and sheep country, there are ranchmen who need money for the purpose of reestablishing their depleted herds and they wanted to borrow money on their ranches in order to put it into stock.

Mr. MARSH. I misunderstood you.

Mr. STRONG. That is a loan they want to arrange on the land, running for 34½ years.

Mr. MARSH. In other words, my statement was correct. I think that this is an effort really to combine production credits based, of course, on real estate security, with long-term credits.

Mr. STRONG. No, it is an attempt simply to extend the amount of money that a man can borrow on his real estate, and the argument in favor of it is that he might want to borrow it to increase his herds, which would require more than \$10,000.

Mr. MANSON. The basic dairy herd or the basic breeding herd is just as much a farm investment as the land and buildings are.

Mr. STRONG. Certainly. I am frank to say if I had not had some money, outside of the \$5,000 I borrowed through the farm loan association, I could not have financed my Holstein dairy and hog farm last year; I could not have bought the stock, to say nothing about the buildings.

Mr. MARSH. You will agree to this, though, that the two are getting pretty well mixed up if you increase the amount of the loan to \$25,000 in order that the man may go into the production business in live stock.

Mr. STRONG. No, that has always been the intention of this system.

Mr. MARSH. Of this act, you mean?

Mr. STRONG. It has always been the intention of this system to let the man borrow money on his farm for the purpose of buying stock, implements, and anything to assist in the production of the farm; that is, he is limited under this law to the borrowing of money to buy land, improvements, or stock, for the purpose of increasing the production of the land, or to buy implements, and the only thing we are doing in this bill is we are trying to extend it to include his present debts, so as to relieve the farmer in debt now and give him an opportunity to amortize his debts and go on with the operation of his farm.

Mr. MARSH. In concluding on this question, I still feel so large an increase is unwise. Under our present system about 3 per cent of the farms have over one-seventh of the total farm land values. I am willing to admit that a number of the farmers in Illinois, Iowa, and Nebraska, who bought farms capitalized on the basis of the war prices they received for farm products, are going to lose money. They went into speculation. I do not think it is the function of the Government to try to save them from the results of their own actions, and you know I have been charged with being pretty hard on the big business interests.

Mr. STRONG. You think those farmers ought to be allowed to lose their farms?

Mr. MARSH. I think there will be very few of them who will lose them. I think a few of them will but about the 30th of September I requested the Secretary of Agriculture, after I came back, following the primaries in September, to make a study of the number of farmers who were going to lose their farms through foreclosure of mortgages. Time after time I asked him, but he did not do it, but I understand he has recently started it. Now, from 1910 to 1920, the increase in the value of farm land was \$26,427,000,000. That included, of course—

Mr. GOLDSBOROUGH. What was it before that time, just in percentages?

Mr. MARSH. The value of all farm land, in 1920, was \$54,903,000,000. In 1910, in round figures, it was something over \$28,000,000,000.

Mr. GOLDSBOROUGH. It about doubled in 10 years?

Mr. MARSH. It increased about 90 per cent, I believe; in the decade from 1900 to 1910 it increased 118 per cent.

Mr. STRONG. Take the farmer out in Iowa: According to your statement, his farm just about doubled in value from 1910 to 1920. If in 1910 we thought we could loan \$10,000 on his farm and the land has gone up to double the value, do you not believe that he has need to borrow more. Has not his buildings and his stock and the implements he buys more than doubled in value?

Mr. MARSH. In price.

Mr. STRONG. In price; everything he buys for that farm has more than doubled in price, the cost of operation, machinery, stock buildings, and everything of that kind, and if that man needs an increased amount of money to operate that farm is it not fair the amount he can borrow should be increased in proportion to the value of his farm and his needs?

Mr. MARSH. No.

Mr. STRONG. Do you think he ought to be held down to \$10,000?

Mr. MARSH. I do not say he ought to be held down to \$10,000.

Mr. STRONG. Suppose he had a loan of \$10,000 10 years ago and now he has to buy some new farm machinery, and he has to buy cattle, and he has to buy a bull for the head of his herd, and he has to replenish his buildings, to build new silos, to refence and do a lot of repairing—

Mr. GOLDSBOROUGH. My God, hasn't he done anything in the last 10 years?

Mr. STRONG. I want to state that most of them have not made anything in the last five years; most of them have gotten in debt—don't you think we ought to double the loan, or the amount of the loan on the land that has doubled in value?

Mr. MARSH. I will go ahead in a little more detail. The difficulties about the cost of production—I am talking with committees right along on that for the farmers—they have to have of course a reasonable profit. All right. You could raise pretty nearly as good corn on some land the selling price of which is \$50 as on some land in middle Iowa—and I have been out there, for I went through college at Grinnell—which is to-day selling for \$400.

Mr. GOLDSBOROUGH. That is it, exactly.

Mr. STRONG. If you know of any land I can buy for \$50 which will raise as good corn as the \$400 land in Iowa, I wish you would slip me the information.

Mr. MARSH. I did not say you could buy it; I say if the land would sell for \$50.

Mr. STRONG. If?

Mr. MARSH. Yes, sir.

Mr. STRONG. But it does not sell for \$50.

Mr. MARSH. By George; it sold for \$50, and they were glad to get it back here in 1892 and 1893, and I am going to repeat it would be a godsend for the farmers of America if the price had never been more than \$50 an acre.

Mr. STRONG. I suppose that the land this Capitol is on could have been bought for a string of beads at one time.

Mr. MARSH. But you are suggesting a system which is going to continue the evil which we now decry, and want to increase.

Mr. STRONG. I am not trying to bring about an evil; I am trying to furnish money to the farmers of this country to take care of their needs and to continue production, and I want to furnish it to them as easily and cheaply as possible.

Mr. MARSH. Let me ask you this, because I know it is being debated all over this country, this speculation in land, and it is going to be continued to be debated until it is settled, too—

Mr. STRONG. You will never settle it in the history of the world.

Mr. MARSH. Oh, my gracious, I have more confidence in my fellow man.

Mr. GOLDSBOROUGH. You will never settle it by continuing the process of inflation.

Mr. STRONG. I do not want to settle it by deflating the farmer.

Mr. GOLDSBOROUGH. Nobody does; nobody wants to settle it by deflating the farmer, and you are not the only member of this committee who is favorable to the farming interests.

Mr. STRONG. I certainly hope I am not.

Mr. GOLDSBOROUGH. You emphasize what a good friend of the farmer you are.

Mr. STRONG. Certainly.

Mr. GOLDSBOROUGH. And contrast your attitude with the attitude of the other members of this committee, by implication.

Mr. STRONG. I certainly do not. You say you won't help it by inflation, and I, in turn, say you shall not help it by deflation.

Mr. MARSH. Whatsoever a man soweth that he shall also reap. If a man goes into speculation in farm lands, or in any sort of speculation, he has to take his medicine, in my judgment.

Mr. STRONG. Absolutely; and I have no great use for the land speculator.

Mr. MARSH. I want to read these figures of what is happening. In 1920 the Census states the value of farm lands in Iowa was \$6,679,000,000; in Illinois, \$5,250,000,000; and in Nebraska, \$3,330,000,000—a total for these three fair-sized States of \$15,259,000,000, or 27.8 per cent, nearly three-tenths, of the total value of farm lands in the United States.

Mr. GOLDSBOROUGH. That was in 1920, was it?

Mr. MARSH. In 1920. Of course, I admit there has been a little deflation since; that is true; but I have to use these figures. There have been some shifts, naturally, in three years, roughly. A large part of the increase in the selling price of farm lands from 1910 to 1920 came in those three States. Now, I know that old State of Iowa; I have traveled all over that State; I spent seven years going to academy and college there, and I know they have speculated and speculated and speculated, and I know there is no end to speculation in city lots and farm lands, and if you let them go on

and give them cheap credit, I am wondering what is going to happen five years hence when we have to get in competition. Mr. Fenn asked this question: If Russia comes back into the market, and Australia and Argentina, with cheap farm lands, where are we going to be? We are going to have put on an embargo, absolutely, on importing farm products and then we can not sell our surplus. I repeat that the total selling price of farm lands to-day is from ten to fifteen billion dollars more than it ought to be, more than it is safe to be, and more than is reasonable.

Mr. STRONG. I can not agree with you that lands should be reduced.

Mr. GOLDSBOROUGH. Nobody wants to reduce them.

Mr. STRONG. I agree with you, and I think every member of this committee agrees with you that we want to stop speculation in land and certainly we want to stop the tendency of having lands taken away from owners and tenants put upon them. Two years ago, I made a speech along that line and showed the tendency was drifting that way, even out in Kansas. I am against land tenancy: I do not want to see anything of that kind happen, and this bill does not provide for loaning money to land speculators: this bill is to provide money to the men engaged in the occupation of farming.

Mr. COREY. May I ask a question right there?

Mr. MARSH. Surely.

Mr. COREY. What was the date when the extravagant speculation in lands that you speak of began?

Mr. MARSH. You mean in the State of Iowa, or generally?

Mr. COREY. Generally, and in the State of Iowa specially.

Mr. MARSH. Speculation has been going on since 1890.

Mr. COREY. But, as we laymen generally understand it, it began in 1919, did it not?

Mr. MARSH. No.

Mr. GOLDSBOROUGH. No.: it began, to my certain knowledge, 12 years ago.

Mr. MARSH. In 1914, it was tremendous.

Mr. COREY. The real speculation you described, extensive speculation in land, I will state, began in 1919. The other increase in land values was proportionate to the general rise in commodity values and then, in 1919, it went out of all proportion in some places. Now I call your attention, Mr. Marsh, to the fact that before there was this excessive increase in land prices, in 1917, during the first year of the operation of the Federal farm loan act, the Farm Loan Board and the Federal land banks concurred in recommending an increase of the loan limit to \$25,000. Why? Not to take care of inflation, but because they then recognized that thousands upon thousands of farmers operating ordinary units were denied the benefits of the Farm loan act. So that it is not fair to base a case upon inflation against an increase of the loan limit.

One other point, and that is this: One of the finest means of assisting the businessman who needs short-term credits is to make possible relieving the country banker from the mass of short-term credits he is now carrying for the farmer at a high interest rate, and let that farmer put it in the form of an amortized loan with the Federal farm loan system. Do you not believe that to be true?

Mr. MARSH. I think it would be a benefit to the farmer, unquestionably, to get lower credits: but that advantage is largely offset by resulting speculative increases in the selling price of farm lands, and I am going to repeat that speculation in farm lands is one of the worst things that happens to the farmer who wants to produce. I have asked literally thousands of farmers—I have been all over fifteen States, all the way from here to the coast, and I asked them in Nebraska, "Did you get anything out of this speculation in farm lands." And they said, "No: we were a bunch of fools."

Do you know Mr. William Stull, Mr. Corey?

Mr. COREY. Yes.

Mr. MARSH. Is he a pretty capable man?

Mr. COREY. You mean Mr. Stull, of the Stull Stock Co.?

Mr. MARSH. Yes. Is he considered accurate?

Mr. COREY. He is considered a good farm mortgage man; yes.

Mr. MARSH. When all this was going on, I had some correspondence with him as to the increase in the selling price of farm lands, and he said it was one of the worst things that could happen, and it is.

Mr. COREY. The worst thing that can happen in every line of business is inflation.

Mr. STRONG. Everybody agrees as to that.

Mr. MARSH. All right. Then ought not we to be trying to stop it in every line of business?

Mr. COREY. Certainly we ought to try and stop it in every line of business, but are you not proposing to limit the credits of the business man as a means to curing that evil?

Mr. MARSH. I certainly am.

Mr. GOLDSBOROUGH. My dear sir, it has been done all through the Federal reserve system to a point, almost of stagnation; it has been overdone in business.

Mr. COREY. Absolutely, and those mistakes should not be continued on to the farmer.

Mr. MANSON. It strikes me, as long as you base your loan on prices which prevailed back in 1913 and 1914, that is about what that \$100 limit means in Iowa and Wisconsin.

Mr. COREY. That is right; now you have hit it absolutely.

Mr. MANSON (continuing). As long as you base your loan upon 50 per cent of the prices that prevailed back in 1913 and 1914, and make no allowance for this increase which resulted from war conditions, there is no incentive to speculation. Of course, ever since 1880, about the time the public domain was exhausted, there has been a natural, normal, increase in the value of farm lands.

Mr. COREY. In ten years it practically doubled.

Mr. MANSON. But there has been an extraordinary increase, beginning with about 1914.

Mr. STRONG. Owing to the war.

Mr. MANSON. Due to the fact all the producers of Europe became consumers instead of producers, which created an extraordinary demand which has been immediately capitalized and precipitately capitalized into an increased price for farm-lands all over the country.

Mr. GOLDSBOROUGH. I do not believe any sane business thinker wants any serious reduction in any sort of prices; but I also believe there has also been, certainly within my business recollection, an inflation of prices of farm lands, never justified within the limits of my experience by their productivity, from year to year.

Mr. STRONG. Then you would say the increase in the value of city property is justified?

Mr. MARSH. No.

Mr. GOLDSBOROUGH. I do not know much about city property.

Mr. MARSH. I will answer that. I worked in New York City for 10 years. New York City is a paradise for land speculators. The economic laws are no different in the city than they are in the country. Thirteen people owned about one-eighth of the value of the land in Manhattan, and they were millionaires and multimillionaires, and finally they got through a bill where the principle is the same—the selling price of farm lands and city lots is the net rental or income value—and we helped to check that speculation in land in New York City, and to-day on the full valuation in one of the boroughs the tax rate is about 3 per cent, and they exempt new buildings from taxation for about 10 years; and in Pittsburgh they are also gradually, every three years, reducing the tax rate on buildings 10 per cent.

Mr. STRONG. The point I want to make is that property values in this country, which is comparatively a new country, as it has settled up, have been increasing and will continue to increase. I am against speculation in land.

Mr. MARSH. Yes; but here is the point, that we have reached the turning point in America and are up against what every old nation has been up against. All of the available free land of the Nation is gone (I mean, what they can get without a large expenditure of capital for irrigation or reclamation), and that always changes the economic situation in every country. You asked me about those farmers. All right. I was out in Iowa and worked on a farm there and went to college, and when I was 21 you could buy 200 acres for \$10,000 at the outside—you could probably not get over \$10,000. To-day, if a boy wants to buy that, that land is up to, roughly, \$300 an acre, and, to start on, for 200 acres, he has to have \$60,000.

Mr. GOLDSBOROUGH. And its productivity does not justify it.

Mr. MARSH. It does not justify it.

I will conclude with a request that you gentlemen strike out that provision for so large an increase in the loan and ask this, if it is not possible for you to recommend that the Federal Farm Loan Board do not loan on lands of such a value, or require the exemption of improvements from taxation, so as to prevent land speculation.

Mr. STRONG. That is not in the province of this system at all.

Mr. MARSH. All right. We are going up against a bad proposition. You have often criticized us, Mr. Chairman, for coming here in behalf of the Farmers National Council. We have guessed right, if you are pleased to put it that way, on every economic proposition. We were the only farmers' organization here that got out and fought the Eech-Cummins law, and I want to read from a recent report, dated November 28, of the hearing on the Norris bill.

Mr. STRONG. Excuse me, but I do not believe we want to go into the Eech-Cummins bill or some other bill now pending in the Senate. We are trying to get through with this bill.

Mr. MARSH. You were good enough to let me do it.

Mr. STRONG. We did not ask you to come, but when you do come we are always willing to let you be heard.

Mr. COREY. You cite \$300 an acre land. We all agree that land at \$300 and \$400 an acre will not pay a fair return in the average community, on the average grain farm. Now do you not recognize the fact that the Farm Loan Board has limited the loan upon any acre of land anywhere to \$100 per acre, and will you not concede that the valuation of \$200 per acre upon farm land in the Corn Belt is profitable and will be profitable, certainly when the farm commodity prices are restored to the fair, normal, level with other commodity prices?

Mr. MARSH. Answering your question directly, I will say a value of \$200 per acre in the Corn Belt is in my opinion insane, suicidal, and uneconomic for the farmer and for the consumer.

Mr. COREY. My answer to that is that the statistics do not bear out your answer.

Mr. STRONG. Do you represent the farmer or the consumer in that statement?

Mr. MARSH. I represent the farmer primarily, but not the big landowning farmer. You have the farm bureau here which represents the big landowning farmer, and the farm banker. I do not represent them; good heavens, no. There are a very few rich farmers who would agree with me.

Mr. STRONG. You represent the Fels Estate in New York; they contribute to your support, and you must represent them.

Mr. MARSH. Some years ago they contributed.

Mr. STRONG. Then you ought to represent them if they contributed to your support.

Mr. MARSH. Nobody tells me what to say. We do not get, as the farm bureau did, \$100,000 from the Chicago Board of Trade.

Mr. STRONG. You got it from a millionaire; I do not know that it makes any difference.

Mr. MARSH. I did not agree with the lady as to single tax. Please do not start any personalities; the vital thing is what are the real effects of this measure.

Mr. STRONG. That is what we are trying to find out.

Mr. MARSH. You have taken two hours to do it.

Mr. STRONG. You are against the clause in this bill increasing the limit from \$10,000 to \$25,000?

Mr. MARSH. Certainly, until you can see to it that the little farmer's full needs are met.

Mr. STRONG. I might say to you there is no complaint that the loans to the little farmers are in any way curtailed; that the evidence is there is all the money that is needed.

Mr. MARSH. No.

Mr. STRONG. I want to say to you further that every other farmers' association—

Mr. MARSH. Has endorsed it.

Mr. STRONG. (continuing). That we know of seems to be in favor of this proposition.

Mr. MARSH. Yes, sir.

Mr. STRONG. The Grange, the Farmers Union, the American Farm Bureau, our friends here, Mr. Lyman, and those men believe that is a good provision, and you are the only man, who claims to be representing the farmers, who is against it.

Mr. MARSH. Yes.

Mr. STRONG. What class of farmers does your organization represent?

Mr. MARSH. It represents the Nonpartisan League of North Dakota and all those Western States, the Farm Labor Union of America, the Washington State Grange,—which absolutely disagrees with the National Grange—in other words, I might say we represent more largely in the Northwestern and Western States the farmers where they decide who is going to be President and who is not.

Mr. STRONG. That is hardly an answer to my question.

Mr. MARSH. It is part of my answer—and those fellows know just what they want and, I want to add, they made some remarkable changes in the complexion of this Congress. They do not give a dog-gone for either party. They know more about economics than the average Congressman. The line of division is on economic status, the tenant farmer has a 100 per cent interest with the wage earner; the little farmer is not a capitalist. These farmers up through the West are desperately poor, all through Minnesota, Montana, Washington State, Oregon, Idaho, Wyoming and up through there, and those fellows do not care about the big farmer who is exploiting them; they are looking out for their own economic interests and I am trying to represent them and they tell me I am doing it, and when I do not represent them I hope they will ask me to quit.

Mr. STRONG. You represent, then, rather the tenant farmer and laborer, rather than the entire class of farmers?

Mr. MARSH. I said the tenant farmer and small farmer.

Mr. STRONG. How large a farmer?

Mr. MARSH. I should say the fellow with an investment of five or six or eight thousand dollars, whose interest in his labor return is four times as great as his interest as a capitalist.

Mr. STRONG. You do not pretend to represent the farming interests as a whole, but a particular class of farmers?

Mr. MARSH. You will notice that 65 per cent of the farmers are in that class—tenant and small farmers. It is rather striking. I have written an article for the Farm Journal which is coming out next month, I think, on the relation between farmers and labor. I have no objection to the Government's financing the fellow who has farm lands and who is trying to hold them up to \$300 and \$400 an acre, if the Government thinks it is a sound policy, but we already have one agent, the Joint-Stock Land Banks, which it seems from your statement, Mr. Chairman, largely meets that need.

Mr. STRONG. But that is a privately-owned, profit-making institution, that you claim to be antagonistic to.

Mr. MARSH. All right. There is nothing to prevent this Government's exercising further control over them, if it wants to. But I am going to repeat, if Mr. Valgren of the Department of Agriculture, and Mr. Wilcox, who wrote that article in the Country Gentlemen, are correct, and I think they are, then there are about \$7,000,000,000 in long-term credits on farm lands to-day and only \$550,000,000 which the farm-loan banks have loaned, and there is evidently quite a field in there for the Government to help the little farmer retire some of their mortgages, on which they are paying up to 8 per cent, and to give the little farmer advantage of this low interest rate.

Mr. STRONG. I want to say, too, there is nothing to hinder the little farmer coming in under this system and getting his loan. We make loans down to \$100.

Mr. MARSH. You make loans down to \$100.

Mr. STRONG. We make loans down to \$100, and there is nothing to hinder the smallest farmer coming in and the purpose of appointing an agent, in this bill, is to make it easier to serve him.

Mr. MARSH. I think anything to make it easier is a good idea.

Mr. STRONG. And the farmers who talk to me about this bill, who represent farmers' associations generally without picking out any particular class, insist they want to increase the amount of the loan in proportion to the increase in the value of the land, so as to take care of the farmers in this country now in debt and enable them to amortize their loans. This is not in the interest of the speculator; we do not loan money under this system to men who live in cities and own large tracts of land; money is only loaned to men who are actually, personally, interested in production on their farms.

Mr. MARSH. I repeat what I said to the farm organization at Fort Worth, Tex., a few months ago, where there were several hundred farmers present attending their annual convention, that the farmer does not need more credit to-day. He is up to his ears in debt. What he has to have is to get a good price for his products and get out of debt, and those figures I have quoted show he is \$12,000,000,000 in debt to-day.

Mr. STRONG. This system has nothing to do with that end of it; this system is only trying to loan him money and amortize it and give him 34 years to pay up and get out of debt.

Mr. MARSH. For Heaven's sake, let him get out in a few years, by getting a fair price for his products.

Mr. STRONG. We are trying to do that.

Mr. MARSH. All right; you are going to have a chance to do it in a few weeks.

Mr. GOLDSBOROUGH. There has been a suggestion made and what this committee is trying to do is to work something out that will be practicable and feasible and serve a legitimate purpose. Now, there has been a suggestion made here that the bill be amended in such a way that the needs of the borrower whose borrowing capacity is less than \$10,000 be first taken care of. What would you think of that sort of a provision?

Mr. MARSH. I tried to express that, Mr. Goldsborough; that is just the proposition; that would be the first essential, that the needs of the very little fellow, taking \$10,000 as the line of demarcation between the big and little fellow, should be taken care of first; that is, the Government's first responsibility is to that little fellow. And may I just point out that that means an investment, probably, or value, of close to \$25,000, doesn't it?

Mr. GOLDSBOROUGH. Yes.

Mr. MARSH. Because you loan up to 40 and 50 per cent, which would make the value, to get a loan of \$10,000, approximately \$25,000, in round figures.

Mr. STRONG. We loan up to 50 per cent of the value of the land and there has been a suggestion here that we should loan up to 30 per cent of the value of the land and buildings. But you confuse this system continually with the personal credit system you have in mind, and on which we are working, too, but this bill has nothing to do with personal credits whatever.

Mr. MARSH. I do not think I confuse them.

Mr. STRONG. I want to say to you that until the past year I was increasing against the loan limit, and two years ago, when an amendment was offered in the House to increase the amount of the loan from \$10,000 to \$25,000, I made a speech on the floor of the House and helped defeat the amendment, because up to that time I took the position that until the system could serve all the small borrowers under \$10,000 I was opposed to increasing the size of the loan above that amount, but now that the system is able to sell enough bonds to more than supply the farmers who want up to \$10,000, I am taking the position that we should increase the limit so as to serve the farmer who needs more than \$10,000. I am sorry to disagree with you.

Mr. COREY. That is an interesting amendment that you suggest; and may I not suggest that that should be submitted to the Farm Loan Board and the farm land banks as an administrative policy, rather than as a part of the act? That is what they have always done; they have served the small farmer; and the Farm Loan Board has declared to you that they will serve him in preference to the larger farmer.

Mr. GOLDSBOROUGH. How could that best be put in the bill?

Mr. COREY. It could be properly framed; but to my mind, the language that he suggests would not quite hit the situation.

Mr. GOLDSBOROUGH. I have not any special language of my own; but if the committee decided that such an amendment as that was wise, I presume that we could work out the mechanics of it.

Mr. COREY. As a matter of fact, the Farm Loan Board, and also the farm land bank, is committed to the duty of serving the small farmer.

Mr. GOLDSBOROUGH. Nobody could ever commit them to that—I do not mean this particular board, but boards of any kind. I have not any reference to any personality.

Mr. STRONG. Have you anything more, Mr. Marsh?

Mr. MARSH. No; I thank you very much for letting me appear here and discuss this whole proposition.

I merely want to add that my concluding proposition is this: The farmers of the Nation are being crushed, and agriculture is being crushed, by the high selling prices of farm lands; it is hitting them rather more than freight rates, even, and hitting them hard.

You will notice that the indebtedness of the farmers increases in a very close ratio with the increase in the selling prices of lands—city and farm lands. And you are not going to settle this farm problem of credits, until you make it so that the productivity of the farm is not reflected in a speculative increase in the selling prices of farm lands.

Ten years hence probably half of the farmers of this country will be tenants—and they are not going to sit idly down and be squeezed out. I make the statement that the big financial interests of the country are trying to create a landed aristocracy in this country; and I think we ought to stop it.

Mr. STRONG. I think so, too, but that has nothing to do with this bill. And I have said to you repeatedly that this bill has nothing to do with those matters; all that this bill is trying to do is to help the farmer who owns the land, and not the land speculator, to secure amortized loans on his farm as easily and cheaply as possible.

Mr. MARSH. And this increase in the size of loans is going to increase farm tenancy; a proof being the farm tenancy has increased very rapidly since this system was started.

Mr. STRONG. I just want to say that the facts of the matter, regardless of your suggestion, do not bear out your statement. The object and purpose of this bill are to decrease farm tenancy, by lending the farmers the money to acquire and operate their farms at the lowest possible rate of interest.

(Thereupon, at 4:30 o'clock p. m., the committee adjourned until Monday, January 15, 1923, at 10:30 o'clock a. m.)

COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Monday, January 15, 1923.

The committee met at 10:30 o'clock a. m., pursuant to adjournment, Hon. Louis T. McFadden presiding.

The CHAIRMAN. Congressman Towner desires to say just a few words before Judge Lobdell enters upon his remarks, which I hope will meet the approval of the committee.

STATEMENT OF HON. HORACE M. TOWNER, MEMBER OF CONGRESS FROM THE STATE OF IOWA.

Mr. TOWNER. Mr. Chairman, I have received within the last two days a flood of telegrams from Iowa regarding this bill, and there are two particular things in them that cause apprehension, so that I thought it was my duty to come before your com-

mittee and call your attention to those matters, although I think the committee already know regarding the feeling and the desire of the numerous interests involved, especially in the Middle West and, perhaps I ought to say, especially in Iowa. These telegrams come from two sources; it is only fair to the committee that I should state that; they come from those who are already members of the Farm loan associations, and they come also from the farm organizations such as the farm bureau and other farm organizations.

There are two things, Mr. Chairman, that they are very apprehensive about. The first one, of course, is that we are nearing the close of the session and they hope that action will be taken early enough so that they may be able to not only dispose of this legislation before the close of the session, but that they may be able to dispose of it before the 1st of March.

I do not know whether Members from other States really understand what the 1st of March means out in Iowa and other Western States. It is the time of general settlement, the time when most of the loans are made payable and become due, the time when interest is paid. The reason that has grown up to be the custom is by reason of the fact that by that time the farmer has disposed of all of his products of the preceding year; at least all except live stock that he is carrying over.

So that the 1st of March is a general settlement day. A great many loans will fall due in Iowa at that time, and it is hoped that this legislation may be made available so that by the 1st of March they may be able to take out loans under the Federal farm loan system.

The second ground, Mr. Chairman—I do not want to prolong my statement—is this: They are very much afraid that the amount stated or carried in the bill, and which generally has been discussed and considered, will be reduced below the \$25,000 limit. I, of course, understand the feeling that a great many have, which has been expressed here in the committee, that perhaps a smaller amount might be sufficient. However, I want just to say this, which is thoroughly understood by our people: There can be, as it seems to me, no real objection to the extension to the full amount, and I only want to suggest a couple of reasons for that. In the first place, the suggestion is made that this will meet with the necessity of the average Iowa farm of a value of perhaps \$30,000, or \$32,000, and that a \$16,000 loan might be sufficient to meet the average Iowa farm situation. Mr. Chairman, there is no doubt but what that is true. However, the average Iowa farm does not mean the usual Iowa farm; certainly it does not mean the universal Iowa farm; that is only the medial between the two. It means that perhaps of the farm loans in Iowa one-half of them are less than \$16,000 and one-half of them are more than \$16,000.

I believe that there is no real valid reasons when it comes to be considered in extending out to those who are above the medial. Besides, it is suggested that those who desire to get loans from the Farm Loan Board can do so through the medium of the joint-stock land banks; that is also very fully understood, I may say, Mr. Chairman, in Iowa. It means a very great deal, indeed, to the farmers of Iowa to be able to take their loans through the cooperative system. It means that they have had, those who have taken out loans through this system during the past year have had 10 per cent regular dividends to their credit, which is of course just that much clear gain. It means that in Iowa recently, and a 15 per cent extra dividend has been divided among the stockholders; it means, in short, that there has been almost a reduction in the interest rate to Iowa farmers who have taken out their loans through the Federal system, almost if not quite 1 per cent of the annual rate of interest. Of course, that amounts to a tremendous thing when you come to consider it. The farmer apprehends and understands this; that is the reason why he is so very anxious to get the benefit of the cooperative system. Under the Federal farm loan system as operated by the joint-stock land banks profits go to the individual stockholders; under the cooperative system it goes to those who are members of the organization, and they are the ones who have taken out the loans. It is purely cooperative in its nature and works for the benefit of the farmers directly.

Now, Mr. Chairman, those two things I desire merely to restate and to say that there was a great deal of apprehension and a great deal of feeling among our farmers regarding those two matters, and I just desire to emphasize that.

Thank you very much for giving me the opportunity for doing so.

The CHAIRMAN. Is there any one else to be heard before Judge Lobdell?

Mr. STEVENSON. I want to insert a resolution sent to me by the Farm Loan Association of the best farm county in South Carolina, who have acted without any solicitation from anybody, so far as I know. Orangeburg County sends me this resolution [reading]:

ORANGEBURG, S. C., January 12, 1923.

DEAR SIR: At the annual meeting of the stockholders of the Orangeburg National Farm Loan Association a resolution was passed directing the president and secretary-

treasurer of that association to write each of the Senators and Representatives from this State conveying the information that the said association was strongly opposed to every feature of the Strong bill, H. R. 13125, and all other similar bills, proposing amendments to the Federal farm loan act, except that feature which proposed to increase the limit of a loan to single individual from \$10,000 to \$25,000. The association is strongly opposed to all suggestions which would eliminate the cooperative feature of the farm loan act, and also to the suggestion that the directors of the farm-loan banks be changed in their organization, so that the national farm-loan associations will elect less than a majority of the said directors.

Very truly yours,

M. E. ZEGLER,
Secretary-Treasurer, Orangeburg National Farm Loan Association.

The CHAIRMAN. I would also like to place in the record at this point two letters from Representative Lamar Jeffers pertaining to this same subject and a letter from Representative J. D. Beck. If the committee desires, I will read them; otherwise I will insert the letters.

(The letters referred to follow:)

WASHINGTON, D. C., January 11, 1923.

CHAIRMAN COMMITTEE ON BANKING AND CURRENCY,
House of Representatives.

MY DEAR SIR: For the information of your committee I beg to hand you herewith a letter from Hon. C. H. Young, of Anniston, Ala., in which letter Mr. Young sets out his views regarding certain features of House bill 13125. I understand that legislation of this nature is under consideration at this time before your committee.

Mr. Young, I may say, is secretary of his local association in Calhoun County, Ala., and I am sure that his views are the result of his actual experience in the work.

I ask your careful consideration to the contents of Mr. Young's letter, and I will further ask that his letter be made a part of your hearings.

Thanking you for your consideration, I am,

Yours very sincerely,

LAMAR JEFFERS.

ANNISTON, ALA., December 20, 1922.

Hon. LAMAR JEFFERS,
Member of Congress, Washington, D. C.

DEAR LAMAR: I have made a careful study of House bill 13125, introduced by Representative Strong.

I do not favor section 6, amending section 15 of the original act, for the reason that this amendment means the ultimate elimination of the farm-loan association. If Federal land banks may make loans direct, then there is no occasion for the farm-loan association. Under the provisions of the act, all applications must originate with the several associations. Each application is now inspected by a representative member of the association or the loan committee as a whole. In addition to the value of the lands, the inspectors consider the moral risk of the applicant, and the interest of the bank as well as the association is amply safeguarded. It is my experience that a great many undesirable applications are filed with the local association, and where the moral risk is bad my association has rejected the application. Furthermore, the Federal land bank now has the advantage of the opinion of the local loan committee as well as the board of directors as a whole, whereas under the amendment the bank would have only the bare report of its inspector. Furthermore, should the bank attempt to make loans direct through a local agent, there will be always the temptation for the local agent to recommend excessive loans for any and all persons by reason of the compensation to be received for placing these loans. I fear that if the amendment is adopted, it will mean the speedy death of the local associations and result in the failure of the purposes contemplated by the act.

I am also of the opinion that but one association should be permitted in any one county or parish. One association can better serve a given community and more efficient men can be employed in the work.

Yours truly,

C. H. YOUNG.

WASHINGTON, D. C., January 13, 1923.

Hon. LOUIS T. McFADDEN.

Chairman Committee on Banking and Currency, House of Representatives.

MY DEAR MR. McFADDEN: As I have previously indicated to you and to other members of the Committee on Banking and Currency, I am very much interested in the legislation affecting rural credits and the farm loan act, now being considered in the hearings being conducted by your committee.

I have active farm-loan associations in the district which I have the honor to represent, and I am taking the liberty of quoting herewith extracts from a letter received recently from the secretary of one of those associations. The letter from which the following extract is taken is from Mr. Morgan Richards, of Selma, Ala., secretary of the Central National Farm Loan Association:

"Our directors discussed the two changes which you specifically mentioned some time ago, and are very much in favor of both of them, with the possible exception of some doubt about the advisability of extending the loan limit above \$25,000 in special cases.

"We believe that the provisions for permanent organization are proper and that the right of the stockholders to have some voice in the management of the bank should have never been taken from them."

I will very much appreciate it if you will be so kind as to bring this to the attention of your committee in connection with your hearings now being conducted, and I will thank the committee if this letter will be included in the record of your hearings.

With good wishes, I am,

Yours very sincerely,

LAMAR JEFFERS, M. C.

WASHINGTON, January 15, 1923.

To the Committee on Banking and Currency:

GENTLEMEN: You are considering H. R. 13125, known as the "Strong bill", amending the Federal land bank law. There are, in my opinion, two provisions of this bill that should become a law. They are the increasing of the amount of the loan to an individual farmer and the providing of land bank districts with directors located in various parts of the districts. If there were added to these provisions of the bill the repeal of the amendment of 1918, and all the other provisions of H. R. 13125 were eliminated, I would support the bill.

Farming is the very foundation of every business institution in the country. If the farmers are prosperous, if this foundation of all business institutions is secure, every other necessary business, if properly managed, will be secure.

Therefore, I believe, any legislation which will enable the farmer to properly function, which will make him more and more independent of large financial institutions, such legislation will not only benefit him but will benefit everybody.

The Federal land bank, as originally conceived, is a farmer institution. He should be allowed to control it, without interference from anyone, especially political interference. As I read H. R. 13125 this system will become a political football subject to the political whims of each succeeding administration. It will replace the farmers own agents as now provided by law, with the agents of the banks. It will lessen the farmers' ability to protect themselves against losses or to participate in profits, and eliminates their having anything to say as to how the system shall function.

It also seems to me that under this bill the security will not be as sound as under existing law, the difficulty in selling bonds will increase, and the risks of the banks will be enhanced. It would also seem that interest rates would go up and profits down.

Under this bill the cooperative features of existing law would be eliminated. It is said the farm loan associations do not function anyway, after the members have secured their loans. But they can and will function whenever their interests are threatened, but that will be impossible under H. R. 13125, not only this but it takes away from the Federal land banks the right to sell and dispose of their own bonds and creates a new agency for that purpose.

It even takes control of the system out of the hands of Congress and places it in a board responsible to no power on earth, not even to themselves and permits this board to levy its entire cost upon the borrowers, whether that cost be much or little.

I would be pleased to have this statement put into the record.

Yours truly,

J. W. BECK.

STATEMENT OF HON. CHARLES E. LOBDELL, COMMISSIONER AND EXECUTIVE OFFICER, FEDERAL FARM LOAN BUREAU, TREASURY DEPARTMENT, WASHINGTON, D. C.

Mr. LOBDELL. Apropos to the resolution read by Congressman Stevenson, I desire to insert in the record a letter of date of January 3, 1923, from Mr. Lester C. Manson, directed to all farm loan associations discussing this bill. I will read only the concluding paragraph:

"When you have reached a conclusion, write your Congressman and Senators. Get your officers and members to write them. Get in touch with your neighboring associations and enlist their aid in this fight. It will also assist us if you will let me know what you have done."

(The letter referred to and submitted by Judge Lobdell is here printed in full, as follows:)

JANUARY 3, 1923.

THE PRESIDENT AND SECRETARY-TREASURER OF NATIONAL FARM LOAN ASSOCIATIONS:

DEAR SIR: I have received so many requests from farm loan associations for my opinion of the effect of the Strong bill, H. R. 13125, and of the Norbeck bill, S. 4130, that I have prepared and am sending to some of the associations this general letter.

The only provision of either of these bills that can help the farm loan system is section 5, increasing the limit on loans which can be made to any one individual by Federal land banks. This provision is likewise contained in several other bills now pending and its enactment is not dependent upon the passage of these bills.

UNINDORSED LOANS MEAN HIGHER INTEREST RATE.

The enactment of the Strong bill, or any other measure authorizing the making of direct unindorsed loans by the Federal land banks, would unquestionably destroy the present market for Federal land bank bonds, and would necessitate an increase of at least one-half of 1 per cent in the interest rate on the bonds, and to the borrowers. The present bonds are secured by mortgages indorsed by farm loan associations. This indorsement enables the bank to look to the association to collect, or make good on defaults. This indorsement reduces the chance of loss to the bank, and reduces the chance of the banks failing to pay the interest and principle of the bonds when due. The result is that the bonds sell readily, at a lower rate of interest than do similar bonds, similarly secured by the same class of mortgages, issued by the joint stock land banks. The only real difference between a joint stock land bank bond and a Federal land bank bond is that the latter is secured by indorsed loans while the former is not. As a result of this, the joint stock land banks are paying one-half of one per cent more interest and are loaning to the borrowers at one-half of 1 per cent more, than the Federal land banks.

EFFECT ON ASSOCIATIONS.

If any of these bills be enacted, the associations which continue in existence will not only be compelled to bear their own losses, as indorsers, but, as stockholders in the banks, they will also share the losses on direct unindorsed loans. The direct borrowers will only share the losses of the bank, and will not be affected by association losses. By voluntary liquidation, which is permitted under these bills, the borrowers through associations can escape their liability under the association indorsement. Under these conditions, a borrower would be more than foolish if he did not vote for the liquidation of the association. It is my opinion that if these provisions of these bills be enacted there will not be an association in existence two years hence.

POLITICAL MANAGEMENT.

It is claimed by those behind these bills that permanent political management of these banks must be provided for in order to secure legislation to increase the limit on loans, and to insure the continued sale of bonds. There is no foundation for either of these statements.

The demand for an increase in the limit is general throughout the country. There is no opposition to this increase, either in Congress, or among those interested in legislation affecting the farm loan system. Congress will, at this session, increase the limit on Federal land bank loans, and will grant this increase without tying any strings to it. This provision was inserted in these bills as a bait for support for the whole scheme proposed. It was inserted to delude associations into supporting a measure which will forever deprive the cooperative owners of this system of cooperative control of its management.

It is fundamental that those whose capital is at stake, and who are liable for losses, are entitled to the control of the management, that they may protect themselves against loss and earn a profit if they can.

A marked distinction exists between Government supervision of management and Government management. It was the intent and purpose of the farm loan act to give to the stockholders the control or the management of the Federal land banks, and to give to the Federal Farm Loan Board the right to so supervise that management as to insure the observance of the law. Proper supervision of the management of these banks is sound and necessary to the sale of the bonds. The management of these banks by the board through its appointees is neither necessary nor sound.

The fact that the board would not permit this system to function during the year 1921 is the best proof of the danger that is inherent in the management being out of the hands of the farmers. What has happened once may happen again.

This claim that the continued sale of bonds is dependent upon a perpetuation of this political management is a ghost, brought forth to scare the farmers into surrendering their right to manage their own property. It is completely refuted by the facts.

The law now provides, and always has provided, that upon the termination of the "temporary" management, the banks shall be managed by boards of nine directors, six of whom shall be elected by the associations. Every bond house selling these bonds knows of this provision of the law, and every large investor knows of it. They know that this "temporary" management is liable to end at any time, and have handled and bought these bonds with that knowledge. In the face of the fact that the bonds are being sold as fast as offered, and subscribed for far in excess of the amount offered, under a law which provides that cooperative management may become effective at any time, what basis can there be for the claim that, unless the law is so amended as to provide for permanent control by politicians, the bonds will not sell. Is it not far more reasonable to believe that investors, knowing the natural conservatism of the farmer, and knowing of the success of cooperatively managed enterprises all over the world, have bought these bonds depending upon the early termination of political control. Who ever heard of an investor who had a predilection for a politically managed institution?

The advocates of the ship subsidy bill claim that the subsidy is necessary to enable the Government to get out of the shipping business, of which it has made a failure. Would it not be well to wait until some means can be devised whereby the Government can successfully manage the business enterprises it owns, before turning over to it the management of privately owned enterprises like the Federal land banks?

Other provisions of these bills transfer the authority to issue bonds from the Federal land banks of each district, which should know the requirements of their respective districts, to a central Federal land bank, and give the board the unlimited right to tax the banks, and indirectly the borrowers, for such expense as the board may see fit to incur.

Generally speaking, these bills, if enacted, will completely revolutionize the whole system, scrap the cooperative machinery, and substitute entirely different machinery in its place.

I have prepared a memorandum for the Senate Committee on Banking and Currency, in which I have made a thorough analysis of the effects of these bills. This memorandum is contained in the report of the hearings on rural credits and a copy will be sent you by Senator Fletcher in a few days. I request that you read it and give its contents your most careful consideration.

Congress will give great weight to the views and wishes of the officers of the associations. This system will not be destroyed if we fight for its preservation. The fight, however, is on now, and if we are ever to do anything it must be done now.

When you have reached a conclusion, write your Congressman and Senators. Get your officers and members to write them. Get in touch with your neighboring associations and enlist their aid in this fight. It will also assist us if you will let me know what you have done.

Very truly yours,

LESTER C. MANSON,

Attorney for the Federation of National Farm Loan Associations.

Mr. LOBDELL. That is self-explanatory.

Mr. STEVENSON. Permit me to interject that I am not the Congressman in that district; that is another district entirely.

Mr. LOBDELL. If I may have your attention a very few moments: I have naturally followed the hearings, although it has not been my pleasure to be present at all of them and there are only a few suggestions that I wish to make.

In reference to the sale of bonds, I notice that the theory has been advanced that the banks could and should do their own marketing individually, instead of cooperatively. In the early stages of our organization in some of the banks the management had the same theory. You will recall that in 1918 provision was made for the purchase of bonds by the Treasury, covering that fiscal year and the succeeding fiscal year; thereafter and during the continuance of the war and until the so-called Victory bond

campaign, after the conclusion of the war, our bonds were sold only at such intervals as suited the pleasure of the Treasury. In January, 1919, we had still a very liberal reserve available in the Treasury for the end of that fiscal year, and the Treasury had, until the Victory campaign came along, no special financing. So that Mr. Norris, who was in charge of our fiscal operations, took that occasion to turn the banks loose and see what they could do in the way of selling bonds. Each bank was authorized to sell all the bonds that it could. The 43 bonds were offered at par and a half, and in the case of the distributors a commission of a half point was made to them.

That activity continued between three and four months. Some of the banks got very active. The Omaha bank, as I think Mr. Corey will recall, hired solicitors and put them into the field. The result was a sale of less, in the aggregate, than \$3,000,000 of bonds by all the banks. The Baltimore bank sold practically up to its consumption. Even the New England bank failed, and the current wants of the banks were supplied by draft on the Treasury. That was in a period when there was a very comfortable bond market. That went on until the Victory bond campaign occurred, when it was stopped, of course, and at the conclusion of the Victory campaign we made a consolidated offering through the distributing houses, the channel which has been usual with us, and they sold \$56,000,000 for us at par 1 in a couple of weeks.

Mr. STRONG. You mean 1 per cent above par?

Mr. LOBDELL. One per cent above par—where the banks altogether had been able to sell less than \$3,000,000 at par and a half in 90 days. We regarded that as a fair test, and the banks regarded it as a fair test; and those that had theretofore had the impression that they could perhaps market individually went very strongly into the cooperative plan.

I notice also that the suggestion was made that the security of the farm loan bonds to the bondholder would be lessened by the liquidation of the farm loan associations. That statement must have been made without analyses of the fact. There is no double liability on the stock of a land bank held by a national farm loan association. The land bank may fail and go into insolvency and the association whose members have made their payments have no further liability; while if the association were liquidated and the liability as provided in this bill extended to the borrowers, there would be a liability on the borrower which does not now exist; and, instead of weakening, if it had any effect, it would add to the security behind the bond.

Mr. STEVENSON. If you will permit me a question right there?

Mr. LOBDELL. Most gladly.

Mr. STEVENSON. I want to get that matter straight in my mind. Suppose the stockholder of the farm loan association had double liability to the association?

Mr. LOBDELL. He has to the association; yes.

Mr. STEVENSON. The association, as I get it from you, does not have a double liability to the bank.

Mr. LOBDELL. To the bank or to the bondholder?

Mr. STEVENSON. Let us see how that would work out. The liability and double liability of the stockholder in the bank, under universal practice of law, is only available when the bank goes into liquidation or when a bank becomes insolvent.

Mr. LOBDELL. That is right.

Mr. STEVENSON. It is never available until it is?

Mr. LOBDELL. No.

Mr. STEVENSON. On the other hand, if an association and the borrowers in an association failed to meet their payments to the land bank then immediately this double liability of the stockholder in the association becomes available to make it up; is not that true?

Mr. LOBDELL. For the obligations contracted within that association.

Mr. STEVENSON. The only way for the bank to fail is for all of the associations, or a large part of the associations, to fail to carry out their obligations, is it not?

Mr. LOBDELL. Yes.

Mr. STEVENSON. Now, if every association that starts down the hill can be proceeded against and its stockholders double liability to it be proceeded against to make that shortage good, then that inures to the benefit of the bank so as to keep it from having accumulated liability, does it not?

Mr. LOBDELL. But when one association does that, that is the end of its liability.

Mr. STEVENSON. But, when it does that, you have got the means there to prevent a loss to the bank, because you can go on to every stockholder of that association for his double liability, and you can do that immediately, while the bank is entirely solvent. If that is done every time when an association begins to go to the bad you have a double liability of the stockholder in the association available to back up the bonds, and the bank immediately, and you do not have to wait until the impairment of the capital of the bank; is not that so?

Mr. LOBDELL. That is true of the particular association.

Mr. STEVENSON. But you have got to deal with each one separately. They begin to default separately, do they not?

Mr. LOBDELL. Yes.

Mr. STEVENSON. If the bank takes that course whenever any association gets into default, and takes that up and makes it good and makes them come across, there is no chance for the bank to become insolvent, and they have never to go on to any other liability.

Mr. LOBDELL. It is inconceivable in fact for a bank to become insolvent. Theoretically, it is possible for one-third of the associations in a bank to have so many defaults as to affect its solvency, and the remaining two-thirds of the associations whose borrowers have met their obligations could not be called upon to repair the insolvency.

Mr. STEVENSON. And therefore it is inconceivable under the arrangement that abolishes the association that any bank or any bondholder would ever go onto a double liability of a stockholder who borrows directly from the bank; it is only the stockholder who is borrowing through an association that can be made to respond when his fellows in the association begin to go wrong and the association begins to fall—that is the fundamental defect in your position.

Mr. LOBDELL. That is a question of judgment, of course.

Mr. STEVENSON. It is a question of practical result. I have to wind up a lot of "lame-duck" corporations one time and another, and if I had had the right while the corporation was still in existence to go onto the stockholders and get a contribution of 100 per cent before it got into the "lame-duck" class I would quit getting 25 per cent where I would frequently have to go for 100. You see the difference of going onto the stockholders of a concern that has a liability, because it is particularly to the association but ultimately for the benefit of the bank. It has a right to go on him and make him responsible for that before there is such a falling down as to impair the solvency of the bank, whereas the other results the other way. That is my view of it, and it has been my experience.

Mr. STRONG. Mr. Lobdell, I would like to ask you a question, whether or not your experience and knowledge of this Federal farm-loan system leads you to believe that the liability attaching against the farm-loan association is of such a nature as to be beneficial in the sale of the bonds?

Mr. LOBDELL. No. I do not believe that any importance is attached to it, and in practice it is not enforced, because in the rare instance of a foreclosure the bank bids the land in at what it has invested in it and the association is relieved of its liability.

Mr. STEVENSON. Just on that point, if you will permit me. The association indorses the mortgage, does it not?

Mr. LOBDELL. Indorses it unqualifiedly; yes.

Mr. STEVENSON. And therefore all we have had to say about the double liability of the association does not amount to anything, because its assets are the liability of its stockholders, are they not?

Mr. LOBDELL. It creates a reserve.

Mr. STEVENSON. That indorsement, which is only backed up really by the liability of the stockholder, has been used—I have noticed in the advertisements, and Mr. Manson has just handed me one here just this minute, where they universally say it is backed up [reading]:

"Guaranteed by the local national farm loan association of which the borrower is a member and stockholder. The stock of these associations carries a double liability."

That is the advertisement of the Federal land bank bonds, 4 1/2 per cent, made by the National City Co. I see another one here, "Guaranteed by the local national farm loan association of which the borrower is a member and stockholder. The stock of these associations carries a double liability." That is the advertisement of the Guaranty Co. of New York.

Those are some of your bond-selling people?

Mr. LOBDELL. Those are members of the managing group.

Mr. STEVENSON. And they very actively put that before the people?

Mr. LOBDELL. Yes.

Mr. STEVENSON. This double liability of the stockholder of the association which backs up the indorsement of the association—

Mr. MACGREGOR (interposing). The same as the stockholder in any bank.

Mr. STEAGALL. As a matter of fact, this is the way it operates, as I understand it: The fact that there is a direct resort to the right resting upon the double liability does not mean that the bank does not get or its security does not get the benefit of that; recognizing that double liability the association indorses the paper, and relieves the bank of the loss in that indirect way, where it all grows out of the rights involved in the double liability of the borrower.

Mr. MACGREGOR. Out of the liability of the stockholder.

Mr. STEAGALL. Judge Lobdell, you would not object in determining what securities the bonds are looked to and relied upon by the purchasers of the bonds—we would

not be limited necessarily to any particular representation or any particular fact to which direct attention was called by those who are offering the bonds; and, on the other hand, you could not attempt to separate and pick out any particular feature of the system as constituting the controlling basis of credit from those who purchase the bonds of the system?

Mr. LOBDELL. That would be, of course, merely a matter of judgment.

Mr. STEGALL. As a matter of fact, it is the whole system, with all its safeguards. The Government's control, regulation, inspection, the double liability, the joint liability of all the various land banks—all taken together that constitutes the security on which the bonds are based?

Mr. LOBDELL. Yes.

Mr. STEGALL. And it would hardly be tenable to say that any particular supervision safeguarding the purchase of bonds would be controlling influence, or that any particular feature would not enter into the calculation; is not that true?

Mr. LOBDELL. I think that, again, becomes a matter of judgment. I think it is possible to form a pretty accurate idea as to certain elements that are indispensable. I do not believe that it is possible to form an accurate idea as to the value of minor elements.

The widely scattered risk, the joint liability of the banks, the fact that the margin creates a fund broad enough to operate and provides an adequate guaranty fund, and the Government supervision and control, of course, are, in my judgment, the outstanding features that are attractive to purchasers.

Mr. STEVENSON. Speaking of the joint liability of the banks, if you will permit me, the total joint liability of the banks is represented by the \$35,000,000 capital stock, is backed by the \$35,000,000 capital stock, and by, outside of the actual securities they put up, this liability on the guaranty made by the farm loan association?

Mr. LOBDELL. No, sir; not at all.

Mr. STEVENSON. Now, what else is there?

Mr. LOBDELL. The farm loan association in your district can under no circumstances be made liable for the bonds in the New Orleans district.

Mr. STEVENSON. Yes, but it is liable.

Mr. LOBDELL (interposing). Even if your bank becomes liable, they can not extend that liability.

Mr. STEVENSON (interposing). To the association?

Mr. LOBDELL. No, sir.

Mr. STEVENSON. I am glad to get that. Then, the joint liability of the banks is backed by its capital stock and surplus?

Mr. LOBDELL. And undivided profits; by its free assets; yes, sir.

Mr. LOBDELL. And undivided profits; by its free assets; yes, sir.

Mr. STRONG. Mr. Lobdell, referring to my question on the subject of liability: Attention has been called to the fact that these bond-selling agencies who refer to the double liability of the stockholders in selling bonds—the point I wanted to make was, whether or not it was of any value in your sale of the bonds. Of course, people when they sell bonds use every available argument, just like the man who sells anything else, who always has a talking point and always has something to which he will direct attention when making the sale. They have to sell bonds like we sell goods; have to use every argument we can think of. But, do you think that liability helps you to make these bond issues?

Mr. LOBDELL. Well, that becomes again a matter of opinion. My judgment is that it is not. But my judgment may be influenced by the fact that I know it has no potential value.

Mr. STRONG. If it is the practice of the banks to buy in the land at the mortgage foreclosure sale for the amount of the mortgage, then the opportunity of the bank to get any benefit under such liability is rather remote, is it not?

Mr. LOBDELL. Of course, it is impossible in such a case.

Mr. STRONG. As provided in the bill, the borrower has his double liability if it is made through an agent direct through the bank.

Mr. LOBDELL. Yes.

Mr. STRONG. Would that change, do you think, or affect the sale of the bonds in any way?

Mr. LOBDELL. I think not; I do not think it is a factor in any way.

Mr. STRONG. But, in either event, the chance of the borrower under this system being charged with a double liability, or being made to pay anything under such liability is rather remote, when you take into consideration that the banks generally bid in the land at the amount of their claim?

Mr. LOBDELL. It becomes impossible under those circumstances.

Mr. LOBDELL. I just wanted to ask the judge one question with reference to his statement that it was the custom of the banks to buy land in at foreclosure proceedings paying the amount of the loan. Of course, I understand and appreciate the conservative policy of the Federal land banks, and I am assuming that that custom is based upon

the fact that the lands have been worth the amount against them; in other words, the question that I wanted to ask is, if it should be the judgment of the officials representing the bank that the land was not worth the money that was loaned on it, would it still be the custom of the bank to buy it in and bid the amount of the loan?

Mr. LOBDELL. And absorb the loss?

Mr. BLACK. Yes.

Mr. LOBDELL. Of course, that question has not arisen, because of your first statement.

Mr. BLACK. Assuming that.

Mr. LOBDELL. The banks have felt that the intrinsic value was there. What they would do if they felt they had been imposed on in any particular loan I would not want to answer.

Mr. BLACK. I am just assuming that they might, of course, be imposed upon some-

time and get hold of a piece of land that did not have the value.

Mr. LOBDELL. Here is the general theory of the banks: Of course, the foreclosure process, as you will realize, Mr. Black, varies greatly in the States. In a few of them it is summary and the land is disposed of; in a majority of them there is a period of redemption. When the bank makes a bid where there is a period of redemption, the amount that it bids is the full measure of its recovery, then, without regard to letting somebody else have the land for less than the amount involved. Of course it can not recover from anybody else but the association, even though the land has a value. So that it is a matter of sound business policy if you have got \$3,000 mortgage on the farm to cover it with a bid rather than to let somebody else take it at less than that, and you either take a loss or enforce your liability, if you can, against the association.

Mr. STEVENSON. You would do that by deducting from the dividends, would you not—the amount of dividends going to the association?

Mr. LOBDELL. No such case has ever arisen. That would be the only method of recovery, either by that or the enforcement of the double liability.

Mr. STEVENSON. When an association is in arrears or any of its stockholders are in arrears for interest and amortization payments, do you not deduct from the dividends?

Mr. LOBDELL. The general policy is to apply accruing dividends to discharge the unpaid obligations to the banks; yes, sir.

Mr. STEVENSON. You have the dividends of all the stockholders; that is, accruing in behalf of all the stockholders, to make good the failure of one borrower to pay his amortization payments?

Mr. LOBDELL. In the dividends due the association; yes.

Mr. MACGREGOR. Would you not first take a deficiency judgment against the borrower on his mortgage if you bid the property for less than the amount of the mortgage?

Mr. LOBDELL. You would, if you pursued that course.

Mr. MACGREGOR. You would first exhaust your remedies against the borrower?

Mr. LAWRENCE. But the chances are you would bid the amount of the loan; that has been your policy.

Mr. LOBDELL. That has been our policy; yes, sir, and on the other theory that the bank is a loaning organization, that its appraisers are trained and that it is privileged to say "no" without local influence while the local loan committee is made up of neighbors and subjected to greater pressure, and it is the business of the bank to see that the loan is good before they make it.

Mr. LAWRENCE. I would like to ask the gentleman a question. I have not had an opportunity to read this bill. It has been suggested by somebody that the number of directors or members of the Federal land board be increased from 4 to 6. Would you favor such an increase?

Mr. LOBDELL. That is the provision that was under discussion in connection with the so-called Lenroot-Anderson Bill, adding additional work, that is, the so-called personal credit department. If that should prevail, the additional members would be very helpful, because it would materially add to the burdens.

Mr. LAWRENCE. Should that become a law, of course, it would add to the work of the board and it would be really necessary; otherwise, you could handle the work without them?

Mr. LOBDELL. Yes.

Mr. STEVENSON. To get back to that dividend proposition: With the association in existence and the borrowers borrowing through the association, when a default is made by one, you have the dividends that are the property of all the stockholders, ten or more, to immediately apply to the default of the one?

Mr. LOBDELL. Yes. It is a very fine collection agency.

Mr. STEVENSON. Is not that a very valuable feature?

Mr. LOBDELL. It is a very valuable feature, and I am very strong for the association on that account. It is a very helpful collection agency.

Mr. STEVENSON. It strikes me that you can get one consolidated fund there from ten, whereas if the loan is made by a fellow direct then you have only his dividends

to apply to his default, and that is where the interliability of all the stockholders in an association is very helpful to the bank.

Mr. LOBDELL. That is where the guarantee of the association is helpful, yes, unquestionably so; and that is the outstanding virtue of the association. It is a splendid collection machine, unquestionably.

Mr. STEVENSON. And the defaults are held down to a very low figure as a result of that, are they not?

Mr. LOBDELL. In many cases—of course, we have a whole lot of associations that are insolvent if we chose to make them so. But it is a very splendid piece of collection machinery.

And, if I may digress a moment, not that it bears particularly upon the issue: I have noted a statement made here attributed to myself, that if I could not destroy or get rid of the Farm Loan Association I would leave the service. Not that it is a material statement, but lest it should be said that it had been made at a hearing at which I was a witness, and that I had failed to challenge it, I want to say that any such statement is mere figment of the imagination, and I call to witness my three democratic colleagues, who have been associated with me since I relinquished the work of dealing with the associations, that I have faithfully, diligently and to the best of my limited ability sought to promote and expand the workings of the association and have rendered them every effort in that direction.

Mr. STEVENSON. Judge, I have not heard that statement made by any member of the committee. I think possibly some witness made the statement that they had heard that made.

Mr. LOBDELL. You have my statement now, and let me say, further, that the idea that a suggestion of the legal method of liquidating an association bears with it hostility to the association or a determination to cripple the association is an absurdity. You gentlemen who drafted the Federal farm loan act contemplated the liquidation of associations; you provided what should be done with their funds when they did liquidate, but by an oversight you did not set up the machinery for liquidation, did not provide how or under what circumstances they might liquidate. So far as the farm loan act is concerned, they can liquidate only through procedure in insolvency. When an association dwindles down to nine members by death or sales, there is no method of winding up that association. This bill provides that and nothing more. The same omission occurred as to joint-stock land banks, and you made provision for their liquidation by an amendment to the farm loan act more than two years ago.

Mr. STRONG. Mr. Lobdell, just in that connection, in the paper called "Labor", published in Washington, D. C., and dated January 13, I find on page 2 the following under the title "Scheme to trick cooperatives is afoot, says Beck." Wisconsin Congressman declares land bank bill is not to aid farmers.

"Representative Joseph D. Beck, stanch Progressive from the seventh Wisconsin district, has written a letter to cooperative farm organizations in the Northwest charging that the Strong-Norbeck bill now pending in Congress will destroy the cooperative features of the farm loan act.

"Beck is a 'dirt farmer' in Vernon County, Wis. He has written the National Farm Loan Association and other organizations declaring it will be a fatal mistake to amend the law as desired by the backers of the Strong bill.

"This bill and its companion in the Senate introduced by Senator Norbeck are so vicious," Representative Beck states, "that I could write many pages and not do justice to the farmers' interests.

"Briefly summarized, this bill will do exactly what the American Bankers' Association, the big life insurance companies, and private financial interests generally wish to have done, namely, destroy the cooperative features of the farm loan act, which features, if continued in force and properly administered, insure exceedingly low interest rates to the farmers.

"Let me say that some of the men who have been on, or are now on, the Federal Farm Loan Board, are not good friends of cooperative farm finance.

"Judge Lobdell, farm loan commissioner, repeatedly has boasted that he would eliminate the cooperative national farm loan associations or resign from the board. He is behind and was instrumental in drafting the Strong bill. The bill embodies every bad provision recommended in the board's fifth annual report. Over 800 national farm loan associations protested against these recommendations of the board.

"The bill will place permanently the 12 Federal land banks in the control of the Farm Loan Board. You stockholders own nearly 90 per cent of the stock in these banks and will soon own all of it. If this bill is enacted into law, you will be denied for all time any voice in the management of these banks."

Having had the opportunity to have some acquaintance with Congressman Beck, and believing him to be a most fair-minded man and a man of pretty moderate, safe views, I went immediately to see him. I found that he sent out a letter as a result

of the propaganda of the gentlemen that have been appearing before this committee against the bill, who are the organizers of this National Federation of Farm Loan Associations, that represents 300 of the 4,600 associations of this system.

I went carefully over the bill with him, and, to my amazement, when I finished he practically endorsed the bill. I do not want to say he indorsed all the provisions. He is very much in favor of raising from \$10,000 to \$25,000; he is very much in favor of the appointment of agents, as he said it was one of the things needed in his part of the country, where the farmers could not get served through the farm loan associations as he would like to have them served. He seemed to favor the sale of the bonds through a central selling agency.

When I asked him particularly regarding the turning over of the system to the borrowers, he seemed to be impressed with the value of having the Government retain supervision, because of the benefit it might be in the minds of the bond buyers who would buy the bonds. He said he might like to have a different system of electing the seventh director, but he had evidently been imposed upon by the propaganda of the men promoting this association; in talking with him I found he was a very close friend and had a great deal of confidence in Mr. Herbert Quick, of his own district; and I informed him that Herbert Quick had been before this committee in the interest of this bill, and against the association from which he had gotten his information.

Mr. STEVENSON. Will the gentleman yield one minute?

Mr. STRONG. In just a moment. Congressman Beck has since had a conference with Herbert Quick, and I regret very much that I was unable to get in touch with him this morning so that he might make a statement for himself before the committee. I just want to call attention to this propaganda and how they are trying to mislead the people of the country.

Mr. STEAGALL. Was that put in the record here?

Mr. STRONG. It was published in the paper called Labor, and sent out broadcast all over the country.

Mr. STEVENSON. You read it into the record here?

Mr. STRONG. I read it into the record, because Judge Lobdell has just denied that he ever made any such assertions as are attributed to him in this article, and I wanted to show where such reports are coming from.

I want to say further to this committee, and I want to call to your attention, Judge Lobdell, and ask you if there is any intention or attempt to do any of the things by this bill that are charged there in that article.

Mr. LOBDELL. I have not seen the article. As you read it, unqualifiedly no.

The CHAIRMAN. Judge Lobdell, if you will proceed.

Mr. LOBDELL. What I have said in reference to liquidations and its effect on the future applies equally to the suggestion of establishing agencies where there are no associations or where existing associations fail to function. In nearly every section of this country that condition exists. In the State of Iowa the joint-stock land banks are getting more loans under \$10,000 than the Federal land banks. There can be but two answers: First, that they have more widely scattered agencies, they have agencies where the Federal bank does not have associations, and, of course, the other is that the borrower prefers to avoid the association. But the outstanding feature is that they are in every corner of the State and the Federal bank is only in such communities as the association has organized or has 10 borrowers who can get together at an identical time and organize. Mr. Corey, you know the facts there; is that a correct statement?

Mr. COREY. That is correct.

Mr. LOBDELL. It is merely a question of service. If the committee has any doubt about the propriety of extending that service, the board has no tenacity of purpose in it. It does not affect our personnel; we are comfortable.

Mr. STRONG. The gentlemen representing this National Federation of Farm Loan Associations have suggested that this power of appointing agencies would be used to break down and destroy existing, properly managed farm-loan associations, because it was charged you were opposed to them. Now, there is nothing in that, is there?

Mr. LOBDELL. That, of course, implies bad faith in the Farm Loan Board, and I am sure there is none on the part of my associates and you gentlemen can judge as to myself.

The CHAIRMAN. After all, Judge, this bill proposes to facilitate the getting of the money from the investing public to the farmer.

Mr. LOBDELL. So far as those features are concerned it contemplates that and nothing else, Mr. Chairman.

The CHAIRMAN. That would be beneficial to the farmers, would it not?

Mr. LOBDELL. We think so. We think it would extend the service where service is now denied.

The CHAIRMAN. In other words, it will be cutting out the fed tape and bringing the investor closer to the farmer and straightening out a lot of the things that now make trouble?

Mr. LOBDELL. That has been our hope, and it is our hope and belief, and nothing else is contemplated. And, let me repeat that the Farm Loan Association, while personally I do not regard it as the most direct and expeditious method of getting money to the borrower, is working in the main satisfactorily; a very large per cent of them are in competent hands and, as a collecting agency, it is very helpful, and there is no disposition—I think I know there is no disposition—on the part of any member of the present board, and it is inconceivable there should be on any board, to impair the functioning of the farm loan associations. It is our desire that the service of the system could go wherever there is good security and gotten without the association if an association can not be organized; and it is likewise our desire that where an association has broken down, as far as functioning is concerned, either because the borrowers have satisfied themselves and do not want to allow anybody else in, or for any other reason, that the privilege of service be extended to that community through the agency. We are contented to leave that with you.

Mr. STRONG. The other provisions of the bill, Judge Lobdell, are for the purpose of more positively continuing its reduced interest rates to the farmer, are they not?

Mr. LOBDELL. Yes, sir. Let me turn a moment to the question of this loan limit and remind you gentlemen that provisions of the present bill have been twice recommended by the Farm Loan Board. That ought to be a definite statement of our attitude. This is the third time that we have united in such a recommendation. This bill in its tentative form was discussed in a conference with the President's Federal land banks, and they with the board agreed upon the recommendations that are here.

Judge TOWNER has very well stated the situation that exists in his State, as it exists in many others, and there should be no disturbance about the thought of the increase of tax-free securities in connection with the increase of the loan limit, because the \$10,000, \$15,000, \$20,000, and \$25,000 loans that are made through the insurance company, which is the principal consumer, become immediately, essentially, if not entirely, tax exempt. That is a thought that you gentlemen can well afford to meditate upon. The commercial market for farm mortgages is the life insurance company, the mutual savings banks, the charitable institutions, and the endowed educational institution, all of which enjoy practical immunity from taxation.

Mr. MACGREGOR. Have you not changed your mind about this, Judge?

Mr. LOBDELL. We have changed our minds apparently twice, I should say.

Mr. MACGREGOR. You have changed it inside of a year, have you not?

Mr. LOBDELL. We have changed it twice inside of a year. The circumstances of that change are these, Mr. MacGregor: This measure came before the Senate in a bill introduced by Senator Kenyon somewhat less than a year ago, if I remember correctly—approximately a year ago, at the time when the Federal land banks were not in funds sufficient to make the loans for \$10,000 and less, and we said very positively at that time, notwithstanding our previous recommendations and our belief in the fundamental principle involved, we did not want to undertake to make any \$25,000 loans until the atmosphere cleared.

Mr. MACGREGOR. Do you think that alters the idea of Mr. Strong of several years ago that the increase to \$25,000 would raise the price of already high land in Kansas?

Mr. LOBDELL. I have never heard that idea as coming from Mr. Strong; I do not know anything about his idea.

Mr. STRONG. I would say to you now that I would like to have them raised; it is about the only chance the farmers have to get ahead a dollar.

Mr. LOBDELL. In this connection, let me reiterate what I said at a former hearing:

One of the fundamental purposes of the farm loan act was to develop the farm tenant into the farm owner, and I am firmly impressed with the idea that he ought not to be relegated to cheap lands if he can get together enough money to make a half payment on an Iowa or Illinois farm or a good plantation in your State, Mr. Steagall, or yours, Mr. Black, he ought not to be set back.

Mr. BLACK. That is true, Judge Lobdell, but here is the danger that suggests itself to me of raising this loan limit so high: If you take the States where the area consists of poorer class of land, of course, he can get a good farm unit within the present loan limit. On the other hand, the only method that I can figure out for increasing the number of home owners in States like Iowa and Illinois is to decrease the farm unit. I am not here to say that that is the practical thing to do; I am not speaking as an expert. But I know, as a general fact, that the only way to decrease the size of the farm unit. Now, if we go ahead and fit the farm loan system so it will absorb a farm of the size that would be represented by a gross valuation of \$50,000 or above, it looks like to me—and that is the way it has appeared to me all along—we are liable to do something that would very seriously set back the underlying purpose of the law.

Mr. LOBDELL. That is a thought that should be taken note of. But our economists, not of the farm loan board, but our agricultural economists, tell us that in Iowa, sections of Missouri, Nebraska, and Kansas the economic unit is 2,000 acres; that their type of agriculture does not lend itself to profitable farming of a smaller unit. To use your figures, a 200-acre farm at \$250 an acre, which is a modest price in many sections, cost \$50,000.

Mr. BLACK. Still, I understand the Farm Loan Board has wisely adopted the policy of not loaning more than \$100 an acre.

Mr. LOBDELL. Yes, we have.

Mr. BLACK. Which would finance 160 acres on a \$16,000 limit, which has been mentioned here by Judge Towner.

Mr. LOBDELL. That would be the limit on any land used for general agricultural purposes.

Mr. BLACK. There is the other feature, Judge, about this increased loan limit. Have you looked into the statistics to find out what percentage of the farm loans of the Nation would be included in the loan limit of \$25,000? Are there any statistics upon that?

Mr. LOBDELL. In that connection, Mr. Black, I asked Secretary Wallace to give me a typical high class Iowa county—that is the section much affected—and he named the county of Cherokee; and I communicated with the register of deeds of that county, and from him obtained what he fortunately happened to have a card index of, all mortgages in the county, which might perhaps be of some value to you.

Mr. BLACK. I would like to have those facts.

Mr. LOBDELL. That showed that in Cherokee County a total of 1,627 farm mortgages in force: 1,037 were \$10,000 and below; 306 were above \$10,000, and below \$15,000; 154 above \$15,000 and including \$20,000; 210 above \$20,000; 80 of those being between \$20,000 and \$25,000.

Mr. BLACK. That confirms the impression that I have had, that if we increase this loan limit to \$25,000, we will make it potentially possible for probably 95 per cent of the farm loans in the United States to be ultimately financed in the farm-loan system.

Here is the thought that I have: At the present time, the market freely absorbs farm loan bonds. But naturally the more loans that can be financed in the system the greater will be the demand; the greater will be the bond offerings; and I am taking it that there will, at least in such periods of time, be less ability to absorb these bonds. The lack of demand would probably raise the interest rate or make it altogether impossible to market them as rapidly as the loan requirement make it necessary. Then the inquiry will be which class of borrowers will be served first. The natural disposition of any business man is to serve the more settled unit, the more profitable enterprise rather than the one that is not such a well-going concern; and I fear that we open up an avenue here that might ultimately work to the injury of the small borrower.

Mr. LOBDELL. I would not lend my consent, if I thought so, Mr. Black.

Mr. BLACK. I am sure of that.

Mr. LOBDELL. Allow me to suggest as bearing on the question of the market, that the joint stock is in that field, running up to \$50,000, where we impose an arbitrary limit; and allow me to suggest also that the Federal land bank is not a profit-making public service institution; and the Farm Loan Board took positively the stand to which Mr. MacGregor has called your attention, that it thought the service should go to the little fellow rather than to the more profitable loan; and I think that any farm loan board or any bank management, if the exigency you suggest arose, and there was not money enough to go around, would arbitrarily fix a limit.

Mr. BLACK. There is this other thought I have that was brought out by Mr. Lyman in his testimony, that if the law is kept as at present—I do not know that he emphasized the present loan limit, but that is the thought I have in mind—that by these offerings being limited there will be such a keen demand for them that the interest rate will gradually go down, and ultimately the man of small means who really does want to purchase a home will be able to do it at a very low rate of interest.

I have the thought that even if he can still be served that the interest rate will not decline as much as it would decline if we make such large offerings as will be necessary to take care of this increased demand, and that even if the small borrower can still be accommodated that he will be accommodated at a larger rate of interest than would otherwise be the case if he maintained the present loan limit.

Mr. LOBDELL. That could work both ways, Mr. Black. It is conceivable that the market may be overloaded. I hardly think so. But the addition of the larger loans, with its wider margin profit, as to overhead, should ultimately enable the banks to operate on a narrower margin and result in the lowering of the rates, even with the present bond rates. Did I make myself clear?

Mr. BLACK. Yes, perfectly. I have heard that argument advanced.

Mr. LOBDELL. That is sound, Mr. Black.

Mr. BLACK. There is this one question that I wanted to ask without special reference to the loan limit, but while I think of it, for the record; I do not know that it has been explained exactly; we might be asked to do so on the floor of the House. When \$75,000,000 bonds are offered, as was the recent case, I want to know, for my own information—I presume that those are bonds of the different banks, are they?

Mr. LOBDELL. Yes.

Mr. BLACK. In other words, a certain number of them are from Texas and a certain number from the bank of Omaha, etc.?

Mr. LOBDELL. They are composite offerings of all the banks. We had, just before this offering, as we always have, a conference of the bank presidents, and they took stock of their anticipated needs until such approximate time as seemed proper for a ceding offer in four or five or six months, as the case might be, and each one contributed to the total of \$75,000,000 all that he thought that he was going to need. That is the method. There is no longer any allotment by the board.

Mr. BLACK. The bond buyer, I presume, does not specify the particular bank bonds that he desires, but if he subscribed, we will say, for \$25,000 in bonds, he may get the bonds of the Texas bank or he may get the bonds of the Omaha bank?

Mr. LOBDELL. That is right; yes, sir. A steady campaign has been carried on and effectively now to disseminate the idea that the bonds in strength are identical because of the mutual underwriting.

Mr. BLACK. Because all of the banks are liable for the bonds of each?

Mr. LOBDELL. Yes.

Mr. WINGO. Mr. Lobdell, as I understand your idea about doubting the wisdom heretofore of raising the maximum limit, was based upon your fear at that time that the bond market was too narrow in volume, and that it was thought best at that time to hold down the limit until such time as the market widened, and you think the market is widened now sufficiently so that there will be sufficient absorption of the issues to take care of these larger loans without putting a check upon the intention and the capacity of the banks to take care of the smaller loans?

Mr. LOBDELL. At that time, Mr. Wingo, we had just emerged from 15 months of suspension. Even the 5 per cents were in the market as low as 96, and reacted to only 98 after the favorable decision. We had made an offering of \$40,000,000 against the judgment of the syndicate managers, who were so positive that we were overselling the market that they insisted on a personal conference with Secretary Mellon, and said to him that they must be absolved from the responsibility of failure. That was the condition of the market. I would say it took three months to accomplish, and our next succeeding sale took 30 days, which showed a slight reaction.

We not only had that adverse market condition to contend with, but, as you know, we had accumulated an overwhelming volume of business, and we had both of those problems to face; and until both of those were satisfactorily cleared up we did not want to have any added difficulties.

We had felt and we do feel that the results of the litigation, the wider advertisement and the continued distribution of the bonds has brought them into such favor that in the absence of hostile legislation or adverse conditions growing up within the banks, and with the enactment of this legislation for their permanent organization there should always be a bond market practically equal to the borrowing demand—of course, not necessarily at the same rate at all times, as the market must fluctuate with money rates.

Mr. WINGO. What was your last issue that you just put out?

Mr. LOBDELL. \$75,000,000 of 4½'s.

Mr. WINGO. At 101?

Mr. LOBDELL. Yes.

Mr. WINGO. And they went very readily. That was immediately taken up by distributors and seems to be pretty well taken?

Mr. LOBDELL. Yes.

Mr. WINGO. You think you have absorbed the accumulated jamb that was occasioned by the tie-up of the system, and that the market has also broadened, and that the time has come, when, in your judgment, it would be perfectly safe to increase the maximum; that you feel like you would have no trouble then in floating your bonds in a sufficient amount to take care of the small and the larger borrowers. Is that your idea?

Mr. LOBDELL. Yes, sir. I do not share the views of some as to the volume of the larger loans that will come in. I do not think it will be as large as has been anticipated, but I do feel that it is fairly illustrated by the size of the sale. We find bond houses anxious to undertake \$75,000,000 sale now where they all but refused \$40,000,000 sale 18 months ago.

Mr. WINGO. Will you please enlighten me on this—I am frank to say I have not got the force of the argument that is called "competitive". Just how is there going to be competition between the joint stock land banks and the Federal land banks of that character that will tend to aid the farmer. We have been told repeatedly that it will accomplish that end.

Mr. LOBDELL. I do not believe I got your question.

Mr. WINGO. We have been told repeatedly that the joint stock land banks and the Federal land banks have to compete, and that you can not have it unless you raised the maximum. Just what is meant by that "competitive" claim? I will be frank to say I have not got it yet.

Mr. LOBDELL. I do not think I quite got your initial statement.

Mr. WINGO. The initial statement is this: What is meant by "competition" and what would be the practical benefits that flowed from the standpoint of the farmer by increasing the maximum so that you will have both the joint stock land banks and the Federal land banks authorized to make the same sized loans in a wider field?

Mr. LOBDELL. It gives him the choice between the cooperative system at a lower rate in the general field. There is only one narrow field where the joint stock land bank is making the same rate. In your State the joint stock is charging 8 per cent, and Mr. Black's State, while the Federal bank is running 5½, with liberal dividend return.

Mr. WINGO. Do you think if we increase the maximum that that will make the joint stock land banks come down to 5½?

Mr. LOBDELL. Well, I do not know.

Mr. WINGO. That would be the only effect of competition. I am thinking of the word "competition" in the ordinary sense. Competition in theory would not be worth anything to the farmer. If by competition you mean that the joint stock land bank would meet the rate of the Federal land bank, by cutting down, of course, that would mean a practical benefit to the farmer, but can and will the joint stock land bank come down?

Mr. LOBDELL. I would not want to hold out that hope, Mr. Wingo.

Mr. WINGO. That has been suggested here, because the only difference to the farmer in the alternative would be that one-half of 1 per cent, would it not?

Mr. LOBDELL. Yes.

Mr. WINGO. And, of course, that is something naturally attractive?

Mr. LOBDELL. Yes.

Mr. WINGO. But now, upon the other hand, we find that there are a great many people who prefer to go into the joint stock land bank, even though one-half of 1 per cent raise, for reasons that need not be enumerated here. So you do not hold out much hope on that practical suggestion?

Mr. LOBDELL. I do not want to hold out any hope on reduced rate on the part of the joint stock land banks. He must operate in relation to his bond sales and interest rate, and that is manifestly affected somewhat by the territory in which he operates, and he is affected also by the commercial competition in his rate, which is, again, a question of territory.

Mr. WINGO. What is there to this suggestion that if we raise the maximum that that would put the loan bank into fields that the joint stock land bank have not gone into yet? I was under the impression, to show you what I had in mind, that we had a large number of joint stock land banks, and the prospects of a great many more, and that they were in actual practice covering the entire farm field. Is there a territory that these joint stock land banks are not in and that they are not going into?

Mr. LOBDELL. It is very narrow. They cover pretty much the whole country. There are two or three now operating in your State.

Mr. WINGO. There are three authorized to do business in my State.

Mr. LOBDELL. Yes.

Mr. WINGO. I was just trying to get at it. I want to try to get in a position where in logic and in conviction I can support the theory that there is some benefit to flow to the farmer from raising the maximum. That is the point. I am not trying to controvert the proposition; I am trying to find arguments that will permit me to follow the line I would like to follow. I would really like to go along and say, "We will throw the whole thing open and let any farmer have whatever amount he wants and let him come into the cooperative system if he wants to."

Mr. LOBDELL. Both will accrue in your territory in the one-half cent differential in the rate; and it will react in the higher dividends to the small borrowers as well as the large. It will reduce the proportionate overhead of the bank.

Mr. WINGO. I appreciate all that, but, frankly, here are two things that have held me back: One was theoretical and the other was a practical thing. The abstract theory that I had had with reference to opposing the increase was one that you are familiar with, that the original intent of the system was to help the man that could

not help himself; that private enterprise, private capital, and private agencies had not set up an agency that would take his credits to the market upon reasonable terms that he could stand, and that when Government agencies, such as the joint-stock land banks and the insurance companies, go out and give the loans at 5 and 5½ and 6 per cent—the insurance companies charging through their agents 1 per cent commission in other words, getting loans at 6 per cent—that there was no justification in theory for the Federal Government then to set up an agency to help that man, because he is not helpless. That has been the abstract proposition. I would be very willing to waive that.

The other proposition that came to my mind was the fear that Mr. Black has expressed that we might—no one can foresee the future—inside of six months time face the world condition or domestic condition that would react upon the market so that you would even have difficulty in floating enough bonds to take care of the \$10,000 loan and under. There is the real practical problem that bothers me now; I am willing to waive the theory of the other; I am willing to be as paternalistic as anybody else to help the farmer. But you think that the situation has been reached whereby the bond market will absorb all the offerings that you will be compelled to make to take care of the \$10,000 loans and under; and, in addition thereto, take care of those who want between \$10,000 and \$25,000. If I believed that you could do that I would be willing to go along with you and waive the other. If you believe that under the practical workings of it you would have no difficulty in finding capital for investment in sufficient volume to readily absorb your bonds, as you issue them to meet the needs of all of them up to and including \$25,000, I would say, "All right; we will throw those other theories to the wind."

Mr. LOBDELL. Speaking first of the primary theory, I think it was pretty prevalent, but it was very manifest to the board, in an analyses of its problems that if the land banks confined themselves in their operations to what was regarded in the loaning world as undesirable territory, they would fall into discredit, and they could not market their bonds; and so, as early as the formation of the banks, we adopted, as our map will show—and I think I have gone over this with you—the practice of putting strong and weak agricultural States together, and while we think they would not make any loan even in territory that was regarded as not so desirable that was not 100 per cent good, yet we balanced those all the time with loans from unquestionable territory, and we think that policy necessary and sound.

On the question of the future, no man is wise enough to speak with certainty, or, of course, to say no threat of world-wide calamity seems possible at the moment, but I think I am willing to repeat what I said awhile ago, that our judgment of the increase of volume that would flow from this legislation is that it would not be such under anything like a normal condition as to at all interfere with the service of those who are now exclusively eligible, and that if such a condition did arise we would arbitrarily limit the service. Of course, that sort of a permanent policy can not be assured, but that is the policy now.

Mr. WINGO. To go into another major proposition the question of this central land bank, I am not yet convinced that I could support a bill with that provision in it. There are a great many other members of the House who feel the same way. I think they can be brought to accept this kind of a plan, which is predicated upon a frank recognition of the virtues of your central land bank scheme; that is, in theory there will be an advantage in having the central issue and joint liability and the other incidental benefits it is no use to enumerate. But that all that could be done by a plan that has been suggested of having a bond division in your farm loan board will be presided over by bond commissioner, who shall be a member of the board, and that there shall be an advisory committee or board composed of the presidents of the Federal land banks, just like the directors of your scheme here, and that that bond division should be composed of the bond commissioner and the advisory board, and that the bond issues should be made through that bond division would be approval of the board, and of your joint issue, just the same as you have under your central land bank. Have you contemplated a plan of that kind, and do you think you could possibly work out a plan of that kind that would be practicable and feasible?

Mr. LOBDELL. The unsoundness, if it be unsound, in that suggestion, Mr. Wingo, lies in a divided responsibility in the farm loan board. There ought to be created no responsibility in which each member of the board does not fully share.

Mr. WINGO. My suggestion was that what they should do would be with the approval of the board. The idea of having a bond commissioner—for one member of the board is just exactly like you now have—you will allocate your work better in the practical working of it, and while all of you will be responsible, one man will devote his personal attention to a particular phase, just like in the Treasury you will have one Assistant Secretary that will be at the head of one particular branch, and yet the Secretary of the Treasury is the chief, and in practical working he takes the advice and, for all practical purposes, his Assistant Secretaries and his Undersecretary constitute

**END OF
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